

COMMODITY FUTURES TRADING COMMISSION

FORM FBOT

FOREIGN BOARD OF TRADE APPLICATION FOR REGISTRATION (IN ORDER TO PERMIT DIRECT ACCESS TO MEMBERS AND OTHER PARTICIPANTS)

Osaka Exchange, Inc.

Name of applicant as specified in organizational documents

8-16, Kitahama 1-chome, Chuo-ku, Osaka 541-0041 JAPAN

Address of principal executive office

- If this Form FBOT is a new application for registration, complete in full and check here.  
 If this Form FBOT is an amendment to a pending application or to a final application that resulted in the issuance of an Order of Registration, list and/or describe all items that are amended or otherwise updated and check here.

(\*) Following Exhibits to Form FBOT, including the documents attached thereto, are replaced due to rule changes in connection with the introduction of Registration Regime for Persons conducting Low Latency Trading, and made other updates:

- Exhibit A-1;
- Exhibit G-2; and
- Exhibit H

GENERAL INFORMATION

1. Name under which the business of the foreign board of trade will be conducted, if different than name specified above:

\_\_\_\_\_

2. List of principal office(s) where foreign board of trade activities are/will be conducted (please use multiple entries, when applicable):

Office (name and/or location):	<u>Head Office</u>
Address:	<u>8-16, Kitahama 1-chome, Chuo-ku, Osaka</u> <u>541-0041 Japan</u>
Phone Number:	<u>+81-6- 4706-0800</u>
Fax Number:	_____
Office (name and/or location):	<u>Tokyo Office</u>
Address:	<u>2-1, Nihombashi-Kabuto-cho, Chuo-ku,</u> <u>Tokyo, 103-0026, Japan</u>
Phone Number:	<u>+81-50-3377-8636</u>
Fax Number:	_____
Website Address:	<u><a href="http://www.jpx.co.jp/english/">http://www.jpx.co.jp/english/</a></u>

3. Contact Information.

3a. Primary Contact for Form FBOT (i.e., the person authorized to receive Commission correspondence in connection with this Form FBOT and to whom questions regarding the submission should be directed):

Name:	<u>Takanori Suzuki</u>
Title:	<u>General Manager, Market Planning Dept.</u>
Email Address:	<u>osaka.kikaku@jpx.co.jp</u>
Mailing Address:	<u>2-1, Nihombashi-Kabuto-cho, Chuo-ku,</u> <u>Tokyo, 103-0026, Japan</u>
Phone Number:	<u>+81-50-3377-8636</u>
Fax Number:	<u></u>

3b. If different than above, primary contact at the foreign board of trade that is authorized to receive all forms of Commission correspondence:

Name:	<u></u>
Title:	<u></u>
Email Address:	<u></u>
Mailing Address:	<u></u> <u></u> <u></u>
Phone Number:	<u></u>
Fax Number:	<u></u>

**BUSINESS ORGANIZATION**

Osaka Exchange, Inc. (“OSE”), formerly known as “Osaka Securities Exchange Co., Ltd.”, is a joint-stock corporation, having its principal office registered in Osaka, Japan.

OSE was established on April 1, 1949, as a nonprofit membership organization under Japan’s Securities and Exchange Law (Law No. 25 of 1948, as amended) (the “Securities and Exchange Law”). The December 2000 amendment of the Securities and Exchange Law made it possible to convert a securities exchange composed of its members into a joint-stock corporation, and the OSE converted its membership organization into a joint-stock corporation on April 1, 2001.

On January 1, 2013, OSE conducted a business combination with Tokyo Stock Exchange Group, Inc., and as a result, Japan Exchange Group, Inc. (“JPX”) was established. In the process of the business combination, the former OSE implemented an “Absorption-Type Split” with new OSE, under which all businesses of the former OSE (including the exchange for derivatives products) were succeeded by new OSE, a subsidiary of JPX.

OSE is a Financial Instruments Exchange under the Financial Instruments and Exchange Act, which superseded the Securities and Exchange Law on September 30, 2007. OSE operates the Financial Instruments Exchange Market where sale and purchase of index futures, government bond futures, index options, options on government bond futures and securities options transactions are conducted. OSE has designated Japan Securities Clearing Corporation (“JSCC”)

as a Financial Instruments Clearing Organization since July 16, 2013. All transactions executed on OSE markets are cleared by JSCC.

**SIGNATURES**

By signing and submitting this Form FBOT, the applicant agrees to and consents that the notice of any proceeding before the Commission in connection with the foreign board of trade's application for registration or registration with the Commission may be given by sending such notice by certified mail or similar secured correspondence to the persons specified in sections 3a and 3b above.

Osaka Exchange, Inc. has duly caused this Form FBOT to be signed on its behalf by the undersigned, hereunto duly authorized, this 3 day of July, 2018.

Osaka Exchange, Inc. and the undersigned represent that all information and representations contained herein are true, current, and complete. It is understood that all information, documentation, and exhibits are considered integral parts of this Form FBOT. The submission of any amendment to Form FBOT represents that all items and exhibits not so amended remain true, current, and complete as previously filed.



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Hiromi YAMAJI

**Signature of Chief Executive Officer (or functional equivalent), on behalf of the Foreign Board of Trade**

President & CEO

**Title**

Osaka Exchange, Inc.

**Name of Foreign Board of Trade**

**EXHIBIT to Form FBOT**

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\* All JPY value is converted to USD value with the rate of ¥16.4906.24 on ~~December~~ March 30<sup>th</sup> 2016.8

## **EXHIBIT A – GENERAL INFORMATION AND DOCUMENTATION**

### **Exhibit A-1**

**Description of the following for the foreign board of trade: location, history, size, ownership and corporate structure, governance and committee structure, current or anticipated presence of offices or staff in the United States, and anticipated volume of business emanating from members and other participants that will be provided direct access to the foreign board of trade’s trading system.**

#### *History*

Osaka Exchange, Inc. (“OSE” or the “Exchange”), formerly known as “Osaka Securities Exchange Co., Ltd.”, was established on April 1, 1949, as a nonprofit membership organization under Japan’s Securities and Exchange Law (Law No. 25 of 1948, as amended) (the “Securities and Exchange Law”). Its predecessor was the Osaka Stock Exchange Co., Ltd. established in 1878. Under the Securities and Exchange Law, the establishment of a securities exchange as a joint-stock corporation was not allowed. However, pursuant to the December 2000 amendment of the Securities and Exchange Law, it became possible to convert a securities exchange composed of its members into a joint-stock corporation, and OSE converted its membership organization into a joint-stock corporation on April 1, 2001.

OSE was the first financial instruments exchange to trade equity derivatives in Japan, and currently is the largest derivatives exchange in Japan measured by trading volume and contract values. OSE is licensed to act as a financial instruments exchange by the Prime Minister of Japan under the Financial Instruments and Exchange Act (“FIEA”).<sup>1</sup> As a licensed financial instruments exchange, OSE is authorized to conduct a market for transactions in derivatives.

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<sup>1</sup> The Securities and Exchange Law was superseded by the FIEA on September 30, 2007. With that amendment, the FIEA defines as a “financial instruments exchange” entities that the Securities and Exchange Law previously defined as a “stock exchange.” This application hereinafter uses the more recent term of “financial instruments exchange” whenever referring to this type of market.

The derivatives products authorized for trading include futures and options on indexes, futures on government bond and options on government bond futures, and options on securities.<sup>2</sup>

On January 1, 2013, OSE entered into a business combination with Tokyo Stock Exchange Group, Inc., and as a result, Japan Exchange Group, Inc. (JPX) was established.<sup>3</sup> In the process of the business combination, the former OSE implemented an “Absorption-Type Split” with new OSE, under which all businesses of the former OSE (including the exchange for derivatives products) were succeeded by new OSE, a subsidiary of JPX. JPX is a holding company that conducts business management of the financial instruments exchanges and the business incidental to such management. Its subsidiary companies are OSE, Tokyo Stock Exchange (TSE), Japan Exchange Regulation (JPX-R)<sup>4</sup> and Japan Securities Clearing Corporation (JSCC). JPX is a publicly traded company. Following its establishment, JPX listed on the JASDAQ market, on which the former OSE listed, and on the first section of the TSE market. Based on the development of the listing rules in connection with the integration of cash markets between OSE and TSE, JPX is listed only on the first section of the TSE market on and after July 16, 2013.

As a result of restructuring of functions in JPX, OSE integrated cash markets with TSE and the clearing function with JSCC on July 16, 2013. Due to the integration of cash markets with TSE, securities transactions are no longer conducted on OSE, but only derivatives transactions are conducted on the OSE markets. In addition, due to the integration of the clearing function with JSCC, OSE abolished financial instruments assumption services, and derivatives transactions on the OSE markets are cleared by JSCC. Also, OSE abolished the Self-regulation Committee, and instead, has entrusted self-regulatory operations to JPX-R since July 16, 2013. As indicated in Exhibit G-3 of this submission, OSE still has responsibility for

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<sup>2</sup> Options on securities traded on OSE include options on equities, ETFs and REITs. OSE understands that of the products traded on OSE, only futures and options on futures are within the CFTC’s jurisdiction and within the scope of this Application for Registration as an FBOT.

<sup>3</sup> OSE notified the Commission of this corporate action under Commission Rule 30.13(l) by letter dated March 12, 2014.

<sup>4</sup> Its corporate name was changed from “Tokyo Stock Exchange Regulation” on April 1, 2014.

promulgating rules concerning self-regulation of its markets and taking disciplinary actions against Trading Participants, while JPX-R is responsible for, among other things, investigating potential rule violations and recommending disciplinary actions.

As the second phase in its restructuring, the derivatives markets of OSE and TSE were integrated on March 24, 2014. Following the integration, OSE became the sole surviving derivatives exchange in JPX and was the successor in interest of the derivatives markets of TSE. On the same date, the corporate name “Osaka Securities Exchange Co., Ltd.” was changed to “Osaka Exchange, Inc.”

#### *Market Size*

In contrast to TSE, which deals in spot trading, OSE is the leading exchange for derivatives products in Japan and its trading volume is the largest among the four Japanese exchanges handling derivatives products. The Nikkei 225 Futures, introduced at OSE in 1988, is now an internationally recognized index futures. The daily average trading volume in fiscal year 20157 (from April 20157 to March 20168) is 1,249,3361,374,489 units for index futures, 35,98634,772 units for government bond futures and 4,1853,520 units for options on government bond futures. As of ~~November~~May 301, 20168, the number of Trading Participants for futures and options trading is 1087.

#### *Location*

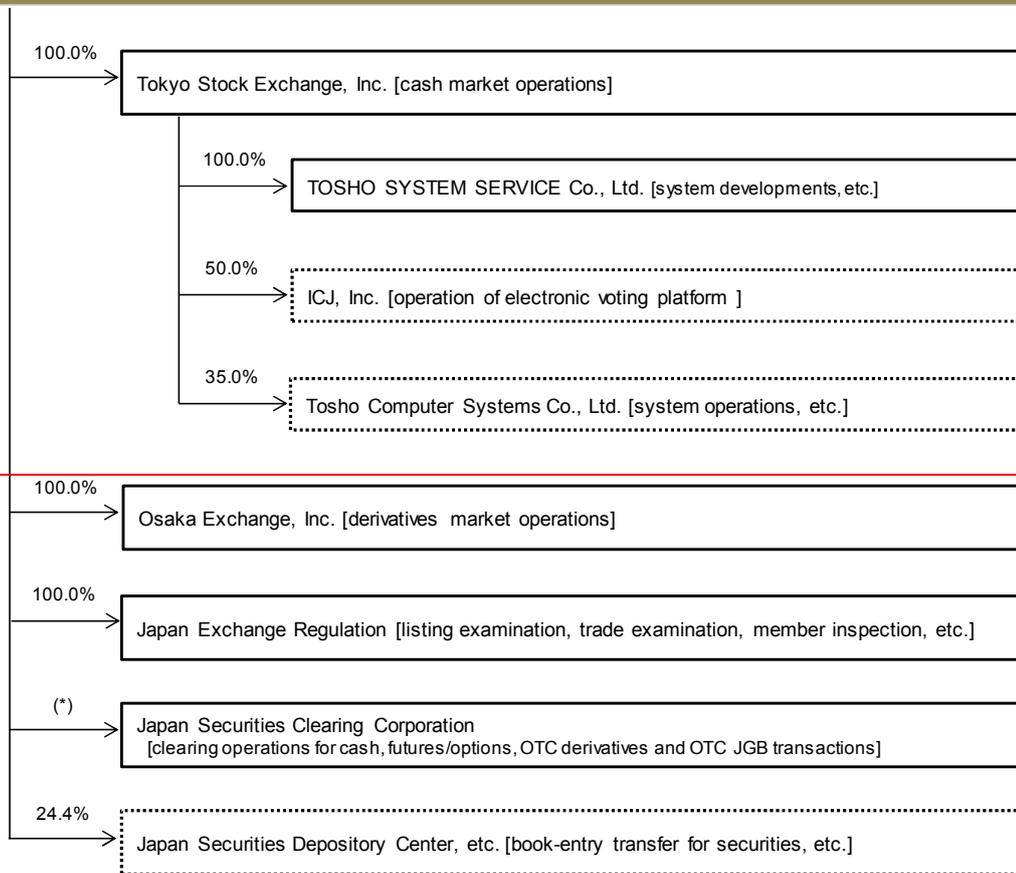
The executive offices and headquarters of OSE are located at: 8-16, Kitahama 1-chome, Chuo-ku, Osaka 541-0041 Japan.

#### *Organization*

OSE is wholly owned by JPX and was capitalized in the amount of ¥4.723 billion (approximately \$404.55 million). The company structure chart of JPX is as follows:

(As of March 31, 2016)

**Japan Exchange Group, Inc.**  
Management and administration of subsidiary financial instruments exchanges and a self-regulatory organization



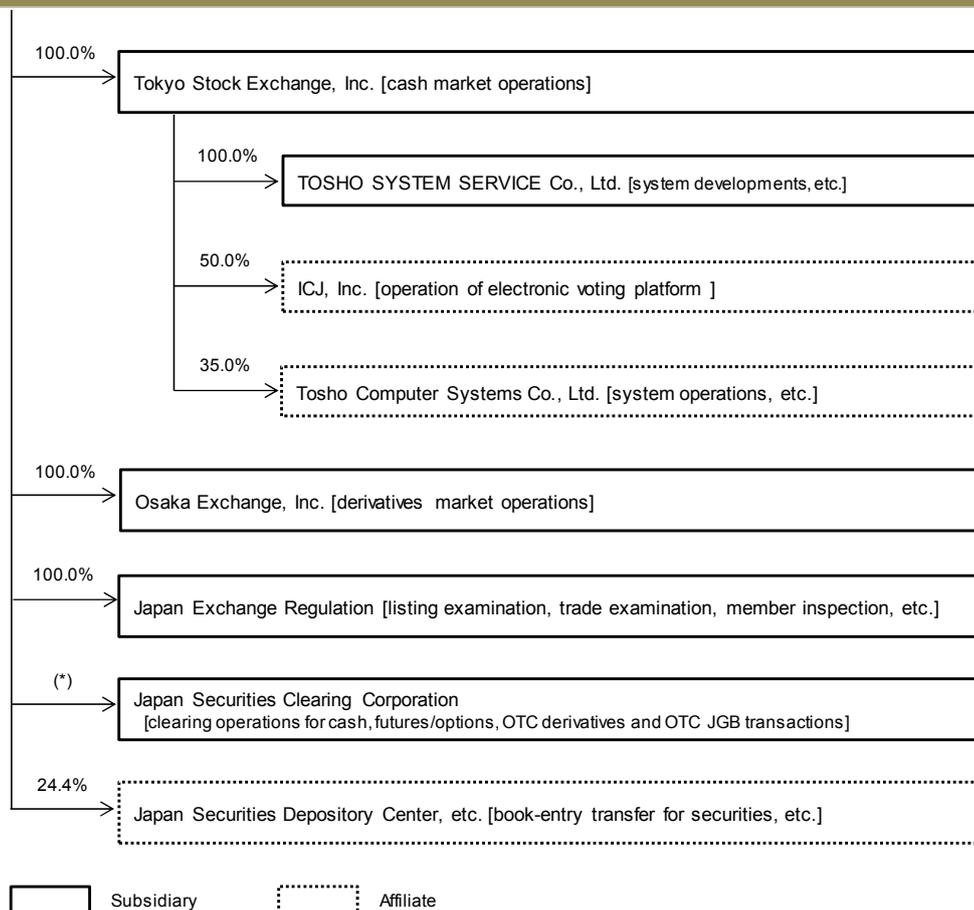
▭ Subsidiary      ▤ Affiliate

Percentages indicate share of voting right.

(\*) Class A shares: 99.2% / Class B shares: 100.0% / Class C shares: 58.2% / Class D shares: 52.9%

(As of March 31, 2018)

**Japan Exchange Group, Inc.**  
Management and administration of subsidiary financial instruments exchanges and a self-regulatory organization



Percentages indicate share of voting right.  
(\*) Class A shares: 88.7% / Class B shares: 100.0% / Class C shares: 60.4% / Class D shares: 52.9%

OSE has a Board of Directors composed of three individuals. It should be noted that both OSE and JPX have separate Boards. OSE's board is responsible for making decisions on the execution of the derivatives exchange's operations, while JPX's board is responsible for supervising the execution of the operations regarding its subsidiary's management including OSE, etc.<sup>5</sup> Also, OSE employs a statutory auditor system to monitor management and has a

<sup>5</sup> Under the Companies Act (Act No. 86 of July 26, 2005), OSE is classified into "Company with Board of Directors", while JPX is classified into "Company with Nominating Committee, etc.". A Company with Nominating Committee, etc. shall establish a Nominating Committee, an Audit Committee and a Compensation Committee (hereinafter referred to as "Committees") in addition to a Board of Directors. Members of each of the

Board of Auditors composed of three auditors, two of which are outside auditors. The directors and auditors of OSE are as follows.

(As of ~~June~~March 23, 20168)

<b>Members of the Board</b>	
<b>Position</b>	<b>Name</b>
President & CEO	Hiromi Yamaji
<del>Director</del> <u>Senior Executive Vice-President</u>	<del>Kazuo Fukuda</del> <u>Kotaro Yamazawa</u>
Director	<del>Tatsuya Kamiki</del> <u>Yoshinori Karino</u>
<b>Auditors</b>	
Standing Statutory Auditor	Masahiko Maruyama
Outside Statutory Auditor	<del>Syunsuke Matsui</del> <u>Hiroshi Iwaki</u> (Lawyer)
Outside Statutory Auditor	Yasuhiko Ogawa (Certified Public Accountant, Certified Tax Accountant)

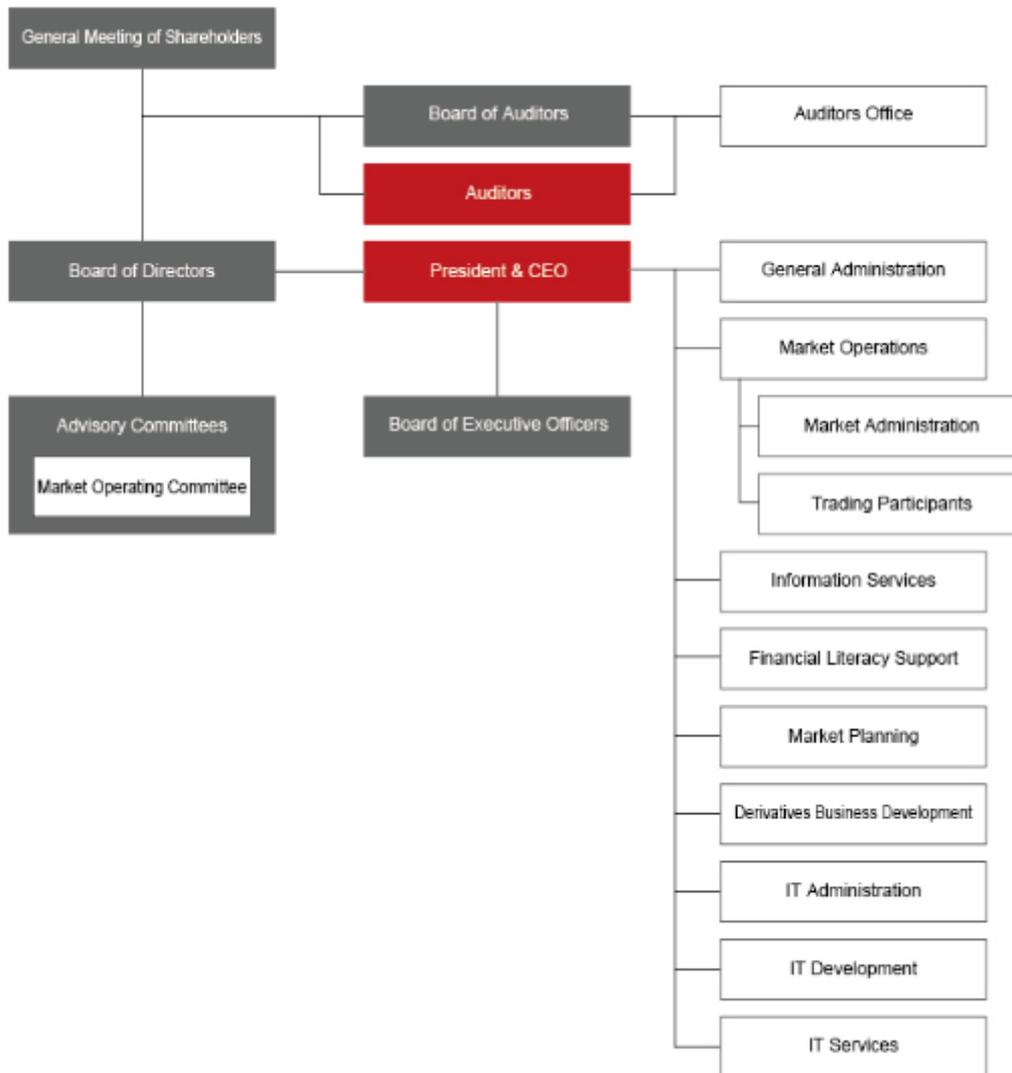
In addition, the Board of Directors established the Market Operating Committee. The committee assists the Board of Directors in discussing proposals and recommending policies on market operations of OSE, such as listing of new products and revisions to the rules for futures and options trading and its brokerage and for Trading Participants to be adopted and actions to be taken by the Board.

OSE has a staff of ~~134~~28 people as of ~~November~~March 30, 20168.<sup>6</sup> The organization chart of OSE is as follows:

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Committees shall be selected from Board members and the majority shall be outside directors. As of ~~July~~March 26, 20168, JPX's boards consist of 13 individuals, ~~nine~~eight of which are outside directors.

<sup>6</sup> It should be noted that the number of employees of OSE is reduced from that when OSE was an independent exchange. However, clearing and self-regulatory functions are carried out by OSE's affiliates. The number of employees in OSE affiliates, that are carrying out OSE-related clearing and SRO functions are not included in this number.



JPX’s English-language website is located at: <http://www.jpx.co.jp/english/>. It posts information on JPX and its wholly owned subsidiaries including OSE. The website includes general information relating to the Exchange, its corporate organization, the contracts traded thereon and on various market mechanisms, such as give-ups, non-auction transactions, circuit breaker rules and market maker programs. Moreover, it provides the public with access to various market data, including in the “Daily Official List” daily open, high, low, close, volume, open interest, last quotation, net change and settlement price. It also includes historical archived volume information.

*OSE’s U.S. Activities*

OSE established a representative office in New York in October 2014. Following the establishment of Japan Exchange Group, the representative office of TSE, which is affiliated company of OSE, was registered as OSE, TSE and JPX. There are three staff (as of ~~November~~March 31, 20168) in the office and all of the staff belong to these three companies. Its activities as OSE are to provide information on OSE and its trading products in the U.S and to carry out representational activities with the Commission and the press. The representative office does not provide investment advice or technical support from the U.S. Nor does it solicit, receive or direct orders with respect to the products traded on the Exchange from such a representative office.

Its other activities in the U.S. are to participate in various widely-attended industry conferences and trade shows. It may also conduct seminars relating to trading on OSE. Upon issuance of Order of Registration, it may also hold informational meetings in the U.S. for potential participants desiring to access the OSE market directly. Although OSE has in effect a FBOT no-action letter, no entity currently operates with direct access to the OSE market from the U.S.. Although OSE has no estimates or projections at this time, however, it is hopeful that U.S. firms will make use of direct access following FBOT registration.

## EXHIBIT G – THE RULES OF THE FOREIGN BOARD OF TRADE AND ENFORCEMENT THEREOF

### Exhibit G-2

#### Description of the foreign board of trade's trade practice rules

OSE rules prohibit TPs from acting “contrary to the just and equitable principles of trade.”<sup>7</sup> Such actions are defined in the rule as actions that “damage the credibility of OSE or TPs of OSE, or are contrary to good faith in respect of OSE or TPs of the OSE” and 1) interfering with or obstructing business of OSE or its TPs; 2) fraudulent, dishonest or improper activities or gross negligence in administering transaction business or 3) accumulating and selling stocks at a profit to a party related to the company that issued such stocks against their will by abusing dominant bargaining position.<sup>8</sup> Additionally, OSE has a general requirement that TPs make “best efforts” to preserve and improve the function of the OSE markets.<sup>9</sup> OSE, in addition to the rules and regulations already in place, may prescribe additional regulations in relation to the efficient operation of OSE markets.<sup>10</sup>

OSE has promulgated rules detailing the requirements of brokerage agreements. The OSE's Brokerage Agreement Standards (including the Special Rules<sup>11</sup>) include conditions for acceptance of orders, methods of settlement, customer's clearing margin requirements, confirmations and various other matters with which customers and TPs must comply. In these rules, OSE requires a customer to set up an account for futures/options trading with a TP, and to submit to the TP “Agreement for Setting up Futures/Options Trading Account” in the form specified by OSE.<sup>12</sup> The agreement shall be submitted for the purpose of verifying the customer's intention to comply with the FIEA and other related laws, rules and regulations of

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<sup>7</sup> Trading Participant Regulations, Rule 51

<sup>8</sup> *Id.*

<sup>9</sup> Trading Participant Regulations, Rule 4.

<sup>10</sup> Business Regulations, Rule 59.

<sup>11</sup> Special Rules for Business Regulations and Brokerage Agreement Standards Relating to J-NET Market.

<sup>12</sup> Brokerage Agreement Standards, Rule 5.

OSE and JSCC, and to acknowledge the matters stipulated in the agreement.

In addition, OSE requires TPs to establish systems which prevent the acceptance and entry of erroneous customer orders.<sup>13</sup> OSE also requires that TPs establish transaction management systems relating to the prevention of unfair trading practices in accordance with the stipulations of OSE.<sup>14</sup> OSE prohibits the abuse of the customer's orders, including the practice of trading ahead of customer orders by TPs.<sup>15</sup> OSE requires a TP, when the TP accepts a brokerage order from a Person conducting Low Latency Trading<sup>16</sup> for trading in the OSE market, to implement measures appropriate for Persons conducting Low Latency Trading to ensure such entities' cooperation in investigations into their compliance with laws and dispositions by government agencies, and other necessary measures taken by OSE regarding Persons conducting Law Latency Trading.<sup>17</sup> –When conducting an inspection, the inspectors check the existence and adequacy of the TP's internal control system to prevent such abuses and whether such abuses have occurred.<sup>18</sup>

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<sup>13</sup> See Rules concerning Order Management Systems at Trading Participants; and Trading Participant Regulations, Rule 21-2.

<sup>14</sup> Trading Participant Regulations, Rule 21.

<sup>15</sup> See, Rules Regarding Just and Equitable Principles of Trade, Rule 4, Paragraph 1, Item 7 and Rule 3, Item 5(violation of the just and equitable principles of trade). The abuse of customer orders is also prohibited under Article 117 (1) (x), (xi), (xii) and (xxiv) of the Cabinet Office Ordinance regarding the Financial Instruments Business.

<sup>16</sup> On May 17, 2017, the Diet passed the bill on the 2017 Amendment of the FIEA, which has provided a framework for a registration regime for Persons conducting Low Latency Trading (the regime has been introduced since April 1, 2018). Under the regime, Persons conducting Low Latency Trading are required to register as Low Latency Trader.

<sup>17</sup> In order to ensure fair trading and investor protection in the OSE market, OSE may entrust investigations into compliance with laws and dispositions by government agencies and other necessary measures regarding Persons conducting Law Latency Trading to JPX-R.

<sup>18</sup> A type-I Financial Instruments Business Operator that is a TP of OSE is also required to be a member of the Japan Securities Dealers Association (“JSDA”), an Authorized Financial Instruments Firms Association. The JSDA is a self-regulatory organization which has authority to promote fair practices and prescribe rules to eliminate unfair

OSE may, when inspecting the TP's observance of the laws and regulations or of the OSE's rules etc., or in other cases where OSE deems it necessary in the light of the objectives of OSE and the operation of the OSE markets, demand the TP to submit a report or document relevant to the TP's operation or property, or may inspect the actual state of the TP's operation or property, or its books, documents or other materials.<sup>19</sup> This authority provides OSE with the ability to obtain from TPs information necessary for OSE to complete effective rule enforcement and investigations.

As discussed in more detail in Exhibit G-4, OSE and JPX-R, in order to ensure fair and smooth trading on the OSE markets, conducts real-time and post-trading surveillance, including providing for an audit trail that captures trade-related data. Also as discussed in greater detail below, OSE has the authority to impose sanctions and discipline TPs for violations.

In addition to its authority to discipline TPs for violative conduct, OSE has a number of additional authorities with which it can address market irregularities. For example, OSE has various authorities to control trading such as temporarily changing the trading hours prescribed, temporarily suspending trading totally or partially, temporarily holding a trading session and even cancelling or suspending transactions.<sup>20</sup> Furthermore, OSE has the authority to take emergency actions. Under this emergency authority, OSE may impose necessary and appropriate regulations relating to the business of TPs if OSE considers there is an urgent need thereof.<sup>21</sup>

Moreover, OSE has rules to promote transparency in market operations. For example, OSE notifies TPs and interested members of the public, such as the press, through the market data system or the website with respect to the total transacted amounts each day on the OSE

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trading. The rules and the guidelines prescribed by JSDA require a type-I financial instruments business operator to establish the internal control system for preventing the actions prohibited under the FIEA.

<sup>19</sup> Trading Participant Regulations, Rule 17.

<sup>20</sup> Business Regulations, Rules 18, 20, 25, 32 and 33.

<sup>21</sup> Trading Participant Regulations, Rule 23.

markets.<sup>22</sup> Likewise, in compliance with Article 131 of the FIEA, OSE provides reports to the Prime Minister of the total trading volume each day on OSE markets.<sup>23</sup> Furthermore, OSE will make reports to the press and public concerning the condition of the OSE markets if necessary, but TPs are prohibited from making such reports or engaging in similar acts.<sup>24</sup>

### *Margin Rules*

OSE has rules for matters related to Clearing Margin for futures and options contracts. While those for Clearing Participants (“CPs”) of JSCC are prescribed by JSCC, such matters for TPs that do not have a Clearing Qualification of JSCC (“Non-CPs”) and those for between customers and TPs are prescribed by OSE. As noted above, Remote TPs clear through an Agency Clearing Participant and therefore will be subject to OSE’s clearing margin rules.

The definition and purpose of Clearing Margin<sup>25</sup> is the same as those in JSCC’s margin rules. However, in OSE’s margin rules, a margin other than Clearing Margin is also defined as the one to ensure that a customer’s obligations related to futures and options trading to its TP are fulfilled.<sup>26</sup>

When a sale or purchase of futures contracts for the proprietary account or customers’ accounts, or a sale of options contracts (i.e. options on futures, index options and/or security options contracts - but as applicable to this application, only options on futures) is concluded, a Non-CP is required to submit to or deposit with its Designated CP the Clearing Margin for each customer (in the event a customer is subdivided discretionally, the sum of the required Clearing Margin for each such subdivision) in an amount not less than the Clearing Margin Requirement prescribed by JSCC by the time specified by the Designated CP that is no later than 12:00

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<sup>22</sup> Business Regulations, Rule 48.

<sup>23</sup> Business Regulations, Rule 49.

<sup>24</sup> Business Regulations, Rule 50.

<sup>25</sup> Clearing Margin is a margin deposited with JSCC for the purpose of ensuring that a CP’s obligations to JSCC, a Non-CP’s obligations to its Designated CP or a customer’s obligations to its TP related to futures and options trading are fulfilled.

<sup>26</sup> Rules on Margin, Rule 3.

~~noon~~ of the day following the date on which the contract was executed.<sup>27</sup> Also, when there is a deficit in the amount of the Clearing Margin respectively for its proprietary account or customers' accounts deposited, the Non-CP must submit to or deposit with the Designated CP the additional Clearing Margin, in an amount not less than the shortfall, by the time specified by the Designated CP that is no later than ~~11:00noon~~ of the day following the occurrence of the shortfall.<sup>28</sup>

A Non-CP, acting as the agent, shall deposit with its Designated CP the Clearing Margin submitted by a customer. However, when Customer Margin<sup>29</sup> is deposited by a customer, the Non-CP shall deposit with its Designated-CP its own money or securities as the Clearing Margin, in an amount not less than the amount deposited by the customer.<sup>30</sup> Also, a Non-CP is required to notify its Designated CP of the breakdown information of short and long positions for each issue by each customer, or each subdivision in the event a customer is subdivided discretionally, per omnibus account prescribed in the Business Rules of JSCC, by the time specified by such Designated CP~~the sum total of the Clearing Margin Requirements for its proprietary account and customers' accounts for each trading day by the time specified by the Designated CP.~~<sup>31</sup> With respect to the notification, upon request of its Designated CP, Non-CPs shall immediately report to the Designated CP in writing on the number of customer account positions and other matters relating to customer account futures and options trading which JSCC deems necessary.<sup>32</sup>

On the other hand, when margin deposits submitted to or deposited with a TP by a customer, the amount of which is obtained by adding/subtracting the amount of money to be paid/received (i.e.

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<sup>27</sup> Rules on Margin, Rule 5, Rule 6 and Rule 8.

<sup>28</sup> Rules on Margin, Rule 9.

<sup>29</sup> Customer Margin means the margin deposited with a Non- CP, etc. by the customer in cases where the Non-CP, etc. deposit or submit as Clearing Margin their own money or securities in an amount not less than the amount deposited in lieu of the deposited margin with an approval of the customer.

<sup>30</sup> Rules on Margin, Rule 6.

<sup>31</sup> Rules on Margin, Rule 12.

<sup>32</sup> Rules on Margin, Rule 13.

the amount calculated by adding options premiums to the mark-to-market results for futures contracts) to/from the margin deposited by a customer with the TP, are less than Customer's Margin Requirement prescribed by JSCC, or when the amount of money submitted or deposited by the customer as the margin is less than the amount of money to be paid, the customer is required to submit to or deposit with the TP the difference between the margin deposits and the Customer's Margin Requirement, or the difference between the amount of money submitted or deposited by the customer as the margin and the amount of money to be paid, whichever greater, by the time specified by the TP on the day following the occurrence of such deficit.<sup>33</sup>

Furthermore, OSE has strict rules governing a TP's ability to withdraw margin deposits. If the total amount of margin deposited by a customer exceeds the Margin Requirement, a TP may allow the customer to withdraw the substitute securities up to the exceeding amount, or the money up to the exceeding amount or up to the excess cash amount, whichever smaller, only if there is still an excess cash margin deposited after the withdrawal (i.e. the amount of money deposited as margin exceeds the amount of money to be paid).<sup>34</sup> Additionally, if an unrealized profit (i.e. a mark-to-market profit) for futures contracts arises in a customer's position and the total amount of margin deposited exceeds the Margin Requirement, a TP may, upon request by the customer, pay the customer cash equivalent to such unrealized profit up to the exceeding amount.<sup>35</sup>

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<sup>33</sup> Rules on Margin, Rule 30.

<sup>34</sup> Rules on Margin, Rule 35.

<sup>35</sup> Rules on Margin, Rule 36.

## **EXHIBIT H – INFORMATION SHARING AGREEMENTS AMONG THE COMMISSION, THE FOREIGN BOARD OF TRADE, THE CLEARING ORGANIZATION, AND RELEVANT REGULATORY AUTHORITIES**

**(1) Description of the arrangements among the Commission, the foreign board of trade, the clearing organization, and the relevant foreign regulatory authorities that govern the sharing of information regarding the transactions that will be executed pursuant to the foreign board of trade’s registration with the Commission and the clearing and settlement of those transactions.**

The Japanese regulatory authorities have long recognized the need for securities regulators to share information on cross-border securities activities, and Japan values international information sharing agreements. In 2002, the Japanese FSA, the U.S. Securities and Exchange Commission (“SEC”) and the CFTC signed a Statement of Intent (“SOI”) Concerning Cooperation, Consultation and the Exchange of Information, which established a framework for information sharing and facilitated cooperation in investigations of potential unfair cross-border securities activities. The SOI was supported by Notes Verbale (Notes), which stated the views the governments share concerning sharing information.

In 2006, the Japanese FSA and the CFTC signed a document amending the SOI so as to cover financial derivatives transactions. The SOI now covers both securities derivatives and financial derivatives. Under the new framework, the FSA, SEC and CFTC will, upon request, exchange information regarding financial derivatives markets, including information on financial futures.

In March 2014, in view of the growing globalization of the world’s financial markets and the increase in cross-border operations and activities of regulated entities, the FSA and CFTC signed Memorandum of Cooperation (“MOC”) Related to the Supervision of Cross-border Covered Entities. The MOC complements the SOI above and IOSCO Multilateral Memorandum of Understanding concerning Consultation and Cooperation and the Exchange of Information referred to in the following (3). The FSA and CFTC expressed, through the MOC, their willingness to cooperate with each other in the interest of fulfilling their respective

regulatory mandates regarding derivatives markets, particularly in the areas of protecting investors and customers; fostering the integrity of and maintaining confidence in financial markets; and reducing systemic risk.

**(2) A statement as to whether and how the foreign board of trade has executed the International Information Sharing Memorandum of Understanding and Agreement.**

OSE is a signatory to the Exchange *International Information Sharing Memorandum of Understanding and Agreement* dated March 15, 1996.

**(3) A statement as to whether the regulatory authorities governing the activities of the foreign board of trade and clearing organization are signatories to the International Organization of Securities Commissions Multilateral Memorandum of Understanding. If not, describe any substitute information-sharing arrangements that are in place.**

In February 2008, Japan signed the International Organization of Securities Commission's ("IOSCO") Multilateral Memorandum of Understanding concerning Consultation and Cooperation and the Exchange of Information, a multilateral framework which facilitates information exchanges among securities regulators around the world. Japan underwent a thorough screening process by IOSCO with regard to its legislation concerning information exchange, and IOSCO determined that Japan has the legal ability to undertake the information exchange requirements.

**(4) A statement as to whether the regulatory authorities governing the activities of the foreign board of trade and clearing organization are signatories to the Declaration on Cooperation and Supervision of International Futures Exchanges and Clearing Organizations. If not, a statement as to whether and how they have committed to share the types of information contemplated by the International Information Sharing Memorandum of Understanding and Agreement with the Commission, whether pursuant to an existing memorandum of understanding or some other arrangement.**

The Japanese FSA is not a signatory to the Declaration on Cooperation and Supervision of

International Futures Exchanges and Clearing Organizations (“Boca Declaration”).<sup>36</sup> ~~However, it is believed that, as seen in (1) and (3) above, the FSA and the Commission has established a framework for information sharing well enough to share the types of information contemplated by International Information Sharing Memorandum of Understanding and Agreement.~~

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<sup>36</sup> Note that the FSA has advised OSE that they will be sending a letter under separate cover to CFTC which makes it possible to share information as provided in the Boca Declaration. That letter is expected to be sent imminently.

## **Business Regulations**

(As of April 1, 2018)

Osaka Exchange, Inc.

### **Chapter 1**

#### **General Provisions**

##### **Rule 1. Purpose**

1. These Regulations shall prescribe necessary matters concerning market derivatives trading on financial instruments exchange markets established by OSE (hereinafter referred to as the "OSE markets") pursuant to the provisions of Article 44, Paragraph 1 of the Articles of Incorporation; provided, however, that matters concerning exchange foreign exchange margin transactions (meaning, among those enumerated in Rule 2, Paragraph 21, Item 2 of the Financial Instruments and Exchange Act (Act No. 25 of 1948; hereinafter referred to as the "Act"), transactions relating to the price of currency) shall be governed by these Regulations and the Special Rules for Business Regulations and Brokerage Agreement Standards Relating to Exchange Foreign Exchange Margin Trading.
2. Any amendments to these Regulations shall be made by resolution of the Board of Directors; provided, however, that this shall not apply in cases of minor amendments.

##### **Rule 2. Trading Participant Regulations, etc.**

1. The obligations of Trading Participants and other matters concerning Trading Participants, including granting of a trading qualification, shall be prescribed in the Trading Participant Regulations.
2. Matters concerning the clearing and settlement of market derivatives contracts on the OSE markets shall be prescribed in the Clearing and Settlement Regulations.

##### **Rule 2-2. Entrustment of Self-Regulatory Operations**

1. OSE may entrust Japan Exchange Regulation (hereinafter referred to as "JPX-R") with the operations concerning listing and delisting of securities options prescribed in Rule 3, Paragraph 1, Item 3 among self-regulatory operations prescribed in Article 84, Paragraph 2 of the Act.
2. OSE may entrust JPX-R with the operations concerning examination of the details of market derivatives transactions on financial instruments exchange markets among self-regulatory operations prescribed in Article 85-5, Paragraph 2 of the Act.
3. With respect to the operations entrusted to JPX-R pursuant to the provisions of Paragraph 1, OSE shall grant approval based on the result of examination conducted by JPX-R.

### **Rule 3. Types of Market Derivatives Contracts**

Market derivatives contracts on the OSE markets shall be the contracts enumerated in the following items:

(1) Government bond futures contract

a. Large contract

A contract enumerated in Article 2, Paragraph 21, Item 1 of the Act that pertains to standardized government bonds

b. Mini contract

A contract enumerated in Article 2, Paragraph 21, Item 2 of the Act that pertains to prices of standardized government bonds

(2) Index futures contract

A contract pertaining to an index among those referred to in Article 2, Paragraph 21, Item 2 of the Act

(3) Securities options contract

A contract pertaining to transactions in securities referred to in Article 2, Paragraph 21, Item 3 of the Act, wherein the parties thereto agree that one party grants the other party a securities option (meaning the right of the party acquiring the securities option (meaning the party to whom the securities option is granted) to effect a sale or purchase in a certain security between the parties by a declaration of intention; the same shall apply hereinafter) and the other party pays the consideration for such option

(4) Government bond futures options contract

A contract pertaining to transactions in government bond futures contracts referred to in Article 2, Paragraph 21, Item 3 of the Act, wherein the parties thereto agree that one party grants the other party a government bond futures option (meaning the right of the party acquiring the government bond futures option (meaning the party to whom the government bond futures option is granted) to effect a sale or purchase in government bond futures contracts between the parties by a declaration of intention by the party acquiring such right; the same shall apply hereinafter) and the other party pays the consideration for such option

(5) Index options contract

A contract pertaining to transactions prescribed in this regulations as transactions equivalent to those referred to in Article 2, Paragraph 21, Item 2 of the Act out of transactions referred to in Item 3 of the same paragraph, wherein the parties thereto agree that one party grants the other party an index option (meaning the right of the party acquiring the option (meaning the party to whom the index option is granted; the same shall apply in Rule 14) to effect between the parties, by a declaration of intention, a transaction in which the parties shall pay/receive an amount of money calculated based on the difference between a numerical value of the index set in advance as a contract index in the case such exercise is intended and the actual numerical value of the index at the time of the actual declaration of such intention (referred

to as the "actual index value" in Rule 14); the same shall apply hereinafter) and the other party pays the consideration for such option.

#### **Rule 4. Definitions of Terms**

The meanings of the terms used in these Regulations shall be subject to the provisions of each rule in addition to the following items:

- (1) The term "futures contract" means a government bond futures contract or an index futures contract.
- (1)-2 The term "option" means a securities option, a government bond futures option, or an index option, and the term "options contract" means a securities options contract, a government bond futures options contract, or an index options contract.
- (2) The term "contract month" means a contract with the classification of the day prescribed according to the types and subjects of derivatives market contracts as the last trading day.
- (3) The term "exercise" means exercise of options.
- (3)-2 The term "exercise date" means the date on which exercise of securities options or index options is allowed, and the term "exercise period" means the period during which exercise of government bond futures options is allowed.
- (4) The term "exercise price" means, with respect to securities options contracts and government bond futures options, a price set in advance as a contract price in the case of exercising said options, and, with respect to index options contracts, a value set in advance as an index in the case of making the declaration of intention set forth in Item 5 of the preceding rule.
- (5) The term "sale" is as prescribed in the relevant a. through c. in accordance with the classification of the market derivatives contracts enumerated in the following a. through c.
  - a. Government bond futures contract
    - (a) Large contract  
A contract where the party will deliver a government bond
    - (b) Mini contract  
A contract where the party will receive money if the actual value (meaning the value of the price of standardized government bonds at a fixed time in the future; the same shall apply in a. (b) of the following item) falls below the contract value (meaning the value agreed by the parties as the price of standardized government bond in advance; the same shall apply in a. (b) of the following item)
  - b. Index futures contract  
A contract where the party will receive money if the actual value (meaning the actual value of index at a fixed time in the future; the same shall apply in b. of the following item) falls below the contract value (meaning the value agreed by the parties as the index value in advance; the same shall apply in b. of the following item)
  - c. Options contract

- A contract where the party will grant an option
- (6) The term "purchase" shall be as prescribed in the relevant a. through c. in accordance with the classification of market derivatives contracts enumerated in the following a. through c.
- a. Government bond futures contract
- (a) Large contract
- A contract where the party will receive a government bond
- (b) Mini contract
- A contract where the party will receive money if the actual value exceeds the contract value
- b. Index futures contract
- A contract where the party will receive money if the actual value exceeds the contract value
- c. Options contract
- A contract where the party will acquire an option
- (7) The term "price" shall be as prescribed in the following a. through c. in accordance with the classification of the market derivatives contracts enumerated in a. through c.
- a. Government bond futures contract
- (a) Large contract
- An amount of consideration to be paid for a sale or purchase of a standardized government bond
- (b) Mini contract
- A numerical value of a price of a standardized government bond
- b. Index futures contracts
- A numerical value of index in an index futures contract
- c. Options contracts
- An amount of consideration to be paid for a sale or purchase of an option
- (8) The term "price fluctuation range" means the range of price fluctuations.
- (9) The term "order" means a declaration of intention concerning the limit of the price that will be executed in the market derivatives contract.
- (10) The term "offer" means an order pertaining to a sale, and the term "bid" means an order pertaining to a purchase.
- (11) The term "trading day" shall be as prescribed in the following a. and b. in accordance with the classification of the market derivatives contracts specified in such a. and b.
- a. Government bond futures contract and government bond futures options contract
- A period between 3:25 p.m. on a day (excluding non-business days (meaning the non-business day stipulated in Rule 19, Paragraph 3 including extraordinary non-business days prescribed in Paragraph 2 of the same rule; the same shall apply hereinafter)) and 3:15 p.m. on the following day (to be moved down in order if it falls on a non-business day; the same shall apply hereinafter except for Rule 18, Paragraph 1, Item 2 and Rule 26,

Paragraph 3)

b. Index futures contract and index options contract

A period between 4:15 p.m. on a day and 4:00 p.m. on the following day

- (12) The term "unsettled contract" means a contract whose settlement is not completed, and the term "position" means the number of unsettled contracts.
- (13) The term "long position" means the number of contracts pertaining to a purchase out of position, and the term "short position" means the number of contracts pertaining to a sale out of position.
- (14) The term "resale" means an opposite contract for long position, and the term "repurchase" means an opposite contract for short position.

## Chapter 2

### Subjects of Contracts and Contract Months, etc.

#### Section 1

##### Standardized Government Bonds, etc.

#### **Rule 4-2. Conditions for Standardized Government Bonds for Large Contracts**

The conditions for standardized government bonds for large contracts shall be as specified in each of the following items for each issue.

- (1) For standardized medium-term government bond: 100 yen face value, 3% interest rate per annum, and 5-year maturity.
- (2) For standardized long-term government bond: 100 yen face value, 6% interest rate per annum, and 10-year maturity.
- (3) For standardized super long-term government bond: 100 yen face value, 3% interest rate per annum, and 20-year maturity.

#### **Rule 4-3. Subject of Mini Contracts**

The subject of mini contracts shall be prices of standardized long-term government bonds.

#### **Rule 4-4. Contract Months and Number thereof**

1. Large and mini contracts shall be classified into contract months for each issue.
2. The contract months in the preceding paragraph shall be those set forth in each of the following items:
  - (1) For large contracts, contract months shall be those for which the date of delivery settlement is March 20 (to be moved down in order if the date falls on a non-business day; the same shall apply hereinafter in this paragraph), June 20, September 20, and December 20.

- (2) For mini contracts, contract months shall be those for which the last trading day is the trading day that ends on the day (to be moved up in order if the day falls on a non-business day; the same shall apply hereinafter) immediately prior to the day on which the last trading day of the large contract for March, June, September, and December ends.
3. For both large and mini contracts, three contract months shall be set. The trading period of each contract month shall be nine months.
4. For large contracts, the last trading day of the contract month that has the earliest day of delivery settlement shall be the trading day that ends five days (excluding non-business days) before such day of delivery settlement, and trading in a new contract month shall begin at a time prescribed by OSE on the day following the day on which said last trading day ends.
5. For mini contracts, trading in a new contract month shall begin at a time prescribed by OSE on the day (to be moved down in order if the day falls on a non-business day) two days after the day on which the last trading day of the contract month that has the earliest last trading day.
6. Notwithstanding the provisions of Paragraphs 2 through 5, in cases where OSE deems it necessary, OSE may change the number and the trading period of contract months as well as the last trading day and the initial trading day.

## **Section 1-2**

### **Subjects of Index Futures Contracts**

#### **Rule 5. Subjects of Contracts**

The subjects of index futures contracts shall be the index specified in the following items:

- (1) Nikkei Stock Average (Nikkei Average): An adjusted average stock price index composed of 225 stocks from among stocks listed on the First Section of the Tokyo Stock Exchange, Inc. (hereinafter referred to as "TSE") and calculated by Nikkei Inc.
- (2) Tokyo Stock Price Index (TOPIX): A free-float adjusted market capitalization-weighted stock price index calculated by TSE and composed of stocks listed on the TSE First Section, which are a class of TSE-listed stocks (meaning those limited to stocks issued by domestic corporations (excluding stocks without voting rights (meaning those prescribed in Rule 2, Item 87 of the Securities Listing Regulations of TSE) and preferred stocks, etc. (meaning those prescribed in Rule 2, Item 90 of the same regulations); the same shall apply hereinafter.).
- (3) JPX-Nikkei Index 400: A free-float adjusted market capitalization-weighted stock price index composed of 400 stocks selected from among stocks listed on the TSE First Section, Second Section, Mothers and JASDAQ and calculated by Japan Exchange Group, Inc., TSE, and Nikkei Inc.
- (4) TSE Mothers Index: A free-float adjusted market capitalization-weighted stock price index composed of stocks listed on the TSE Mothers which are a class of the TSE-listed stocks

- and calculated by TSE.
- (5) Russell/Nomura Prime Index (RNP Index): A free-float adjusted market capitalization-weighted stock price index of stocks selected by Frank Russell Company and Nomura Securities Co., Ltd. (hereinafter referred to as "Russell/Nomura") from among stocks listed on a financial instruments exchange(s) in Japan and calculated by Russell/Nomura.
  - (6) TOPIX Core30: A free-float adjusted market capitalization-weighted stock price index composed of 30 stocks selected by TSE from among those listed on the TSE First Section which are a class of the TSE-listed stocks and calculated by TSE.
  - (7) TOPIX Banks Index: A free-float adjusted market capitalization-weighted stock price index composed of stocks classified under the banking sector by the Securities Identification Code Committee from among those listed on the TSE First Section which are a class of the TSE-listed stocks and calculated by TSE.
  - (8) TSE REIT Index: A free-float adjusted market capitalization-weighted index composed of securities listed on the TSE REIT ("real estate investment trust securities" as prescribed in Rule 1201, Item 7 of the Securities Listing Regulations of TSE) market and calculated by TSE.
  - (9) Dow Jones Industrial Average (DJIA): An adjusted average stock price index of 30 stocks selected by the S&P Dow Jones Indices LLC from among stocks listed on a foreign financial instruments market and calculated by the S&P Dow Jones Indices LLC.
  - (10) Nifty 50: A free-float adjusted market capitalization-weighted stock price index composed of 50 stocks selected by India Index Services Products Limited (hereinafter referred to as "IISL") from among stocks listed on the National Stock Exchange of India (hereinafter referred to as "NSE").
  - (11) TWSE Capitalization Weighted Stock Index (TAIEX) : A market capitalization-weighted stock price index composed of stocks listed on the Taiwan Stock Exchange Corporation (hereinafter referred to as "TWSE") and calculated by TWSE.
  - (12) FTSE China 50 Index: A free-float adjusted market capitalization-weighted stock price index composed of 50 stocks selected by FTSE International Limited from among stocks listed on the Stock Exchange of Hong Kong Limited (hereinafter referred to as "SEHK") and calculated by FTSE International Limited.
  - (13) Nikkei Stock Average Volatility Index (Nikkei 225 VI): An index which estimates the size of a future change in the Nikkei Average and is calculated by Nikkei Inc.
  - (14) Nikkei Stock Average Dividend Point Index: A dividend index (an index calculated from dividend amounts (meaning surplus dividends; the same shall apply hereinafter); the same shall apply hereinafter in this rule) of stocks which are Nikkei Average constituents and calculated by Nikkei Inc.
  - (15) TOPIX Dividend Index: A dividend index of stocks which are TOPIX constituents and

calculated by TSE.

- (16) TOPIX Core30 Dividend Index: A dividend index of stocks which are TOPIX Core30 constituents and calculated by TSE.

#### **Rule 6. Large Contract and Mini Contract**

Index futures contracts on Nikkei Average and TOPIX shall be classified into large contracts and mini contracts in accordance with the following items.

(1) Nikkei Average

A large contract shall be a contract whose trading unit is the amount specified in Rule 29, Item 2 a. (a), and a mini contract shall be a contract whose trading unit is the amount specified in a. (b) of the same item.

(2) TOPIX

A large contract shall be a contract whose trading unit is the amount specified in Rule 29, Item 2 b. (a), and a mini contract shall be a contract whose trading unit is the amount specified in b. (b) of the same item.

#### **Rule 7. Contract Months and Number thereof**

1. Trading in index futures contracts shall be conducted in accordance with the classification of contract months whose last trading is the day stipulated in respective items for underlying index (meaning an index in index futures contracts; the same shall apply hereinafter) enumerated in each of the following items.

(1) Nikkei Average, TOPIX, JPX-Nikkei Index 400, TSE Mothers Index, RNP Index, TOPIX Core30, TOPIX Banks Index, and TSE REIT Index

A trading day that ends on the day preceding the second Friday of each calendar month (to be moved up in order if the day falls on a non-business day; the same shall apply hereinafter)

(2) DJIA

A trading day that ends on the third Friday of each calendar month (to be moved up in order if the day falls on a non-business day or if the day in the Eastern Standard Time of the United States of America falls on the day when the DJIA is scheduled not to be calculated)

(3) Nifty 50

A trading day that ends on the last Thursday of each calendar month (to be moved up in order if the day falls on a non-business day or if the day in India falls on the day when the Nifty 50 is scheduled not to be calculated)

(4) TAIEX

A trading day that ends on the day preceding the third Wednesday of each calendar month (to be moved down in order if the day in Taiwan falls on the day when TAIEX is scheduled not to be calculated)

(5) FTSE China 50 Index

A trading day that ends on the day (to be moved up in order if the day in Hong Kong falls on the day when the FTSE China 50 Index is scheduled not to be calculated) preceding the last day of each calendar month (to be moved up in order if the day in Hong Kong falls on the day when the FTSE China 50 Index is scheduled not to be calculated)

(6) Nikkei 225 VI

A trading day that ends on the day preceding the day that is thirty days prior to the second Friday of each calendar month (to be moved up in order if it falls on a non-business day; the same shall apply hereinafter.)

(7) Dividend indices (meaning Nikkei Stock Average Dividend Point Index, TOPIX Dividend Index, and TOPIX Core30 Dividend Index; the same shall apply hereinafter)

A trading day that ends on the final day of March (to be moved up in order if it falls on a non-business day; the same shall apply hereinafter)

2. The number of contract months and the trading period of each contract month shall be as prescribed in the following relevant item in accordance with the classification of the underlying indices enumerated in each of the following items:

(1) Nikkei Average

a. Large contract

Thirteen contract months of March, June, September and December (hereinafter referred to as "specified contract months") shall be set. The trading period of each contract month of June and December shall be five years and that of each contract month of March and September shall be one year and six months.

b. Mini contract

Thirteen contract months of the specified contract months and the nearest three contract months other than the specified contract months shall be set. The trading period of each specified contract month shall be five years (one year and six months for each contract month of March and September) and that of each contract month other than the specified contract months shall be five months (four months for each contract month of February, May, August and November).

(2) TOPIX

a. Large contract

Five contract months of the specified contract months shall be set. The trading period of each contract month shall be one year and three months.

b. Mini contract

Three contract months of the specified contract months shall be set. The trading period of each contract month shall be nine months.

(3) JPX-Nikkei Index 400, TSE Mothers Index, and RNP Index

Five contract months of the specified contract months shall be set. The trading period of each contract month shall be one year and three months.

(4) TOPIX Core30, TOPIX Banks Index, and TSE REIT Index

Three contract months of the specified contract months shall be set. The trading period of each contract month shall be nine months.

(5) DJIA

Four contract months of the specified contract months shall be set. The trading period of each contract month shall be one year.

(6) Nifty 50

Three contract months of each contract months shall be set. The trading period of each contract month shall be three months.

(7) TAIEX

Two consecutive near-term contract months and three contract months of the specified contract months other than the aforementioned two near-term contract months shall be set. The trading period of each contract month shall be two months for the contract months other than the specified contract months and eleven months for specified contract months.

(8) FTSE China 50 Index

Two consecutive near-term contract months and two contract months of the specified contract months other than the aforementioned two near-term contract months shall be set. The trading period of each contract month shall be two months for the contract months other than the specified contract months and eight months for the specified contract months.

(9) Nikkei 225 VI

Eight contract months of each month shall be set. The trading period of each contract month shall be eight months.

(10) Dividend indices

Eight contract months (nine contract months during the period from January 4 (to be moved down in order if the date falls on a non-business day; the same shall apply hereinafter.) to the day on which the last trading day of the contract month whose last trading day comes earliest ends (hereinafter referred to as the "nearest contract month")) of the December contract month shall be set. The trading period of each contract month shall be eight years and three months.

3. The final settlement day of each contract month shall be the day following the day on which the final settlement price is determined in accordance with the provisions of each paragraph of Rule 36.

4. Trading in a new contract month shall begin pursuant to the provisions of each of the following items.

(1) For index futures contracts (excluding dividend index futures contracts (meaning index

futures contracts on the dividend indices; the same shall apply hereinafter.)), it shall begin at the time prescribed by OSE on the day following the last trading day of the nearest contract month.

- (2) For dividend index futures contracts, it shall begin at the time prescribed by OSE on January 4 of the year in which the last trading day of the nearest contract month falls.
5. Notwithstanding the provisions of each of the preceding paragraphs, in the case where OSE lists an underlying index and other cases where OSE deems it necessary, OSE may change the number and the trading period of contract months as well as the last trading day and the initial trading day.

## Section 2

### Subjects of Securities Options Contracts, etc.

#### Rule 8. Subjects of Contracts

1. The subjects of securities options contracts shall be securities options specified in the following items pertaining to certain securities that are selected by OSE based on the criteria set forth in the next rule among securities listed on domestic financial instruments exchanges (hereinafter referred to as "underlying securities").
  - (1) Securities options that can effect, in the securities transaction effected by exercise thereof, a sale of the underlying security at the exercise price for the quantity of the underlying security prescribed in the following paragraph and the Paragraph 3 (the same shall apply in the following item; hereinafter referred to as securities put options).
  - (2) Securities options that can effect, in the securities transaction effected resulting exercise thereof, a purchase of the underlying security at the exercise price for the quantity of the underlying security (hereinafter referred to as securities call options)
2. The quantity of transactions in an underlying security resulting from exercise for minimum unit (hereinafter referred to as the "quantity of an underlying security for one trading unit of the securities option") shall be the quantity pertaining to the trading unit of the underlying security (meaning the trading unit provided in the regulations of the financial instruments exchange that establishes financial instruments exchange markets listing the underlying security (hereinafter referred to as the "exchange listing the underlying security"; the same shall apply hereinafter).
3. Notwithstanding the provisions of the preceding paragraph, in cases where the quantity of an underlying security for one trading unit of the securities option is adjusted under the provisions of Rule 12, Paragraph 2, transactions for said adjusted quantity of the underlying security shall be effected by exercise for minimum unit.
4. In relation to securities options contracts, the term "issue" means securities put options or securities call options that have the same underlying security, quantity of an underlying security for one trading unit of the securities option, exercise date and exercise price.

#### Rule 9. Selection Criteria for Underlying Securities

1. Securities shall be selected as underlying securities from among the securities satisfying either of the criteria prescribed in the relevant item in accordance with the classification of the listed

securities enumerated in the following items.

(1) Stocks

Satisfying either of the following a. or b.

a. Satisfying the following (a) through (c)

(a) Stocks listed on the first section of TSE or Nagoya Stock Exchange, Inc. (hereinafter referred to as the "two exchanges") or stocks (limited to stock not listed on the two exchanges) satisfying the following (i) through (iii):

(i) The number of tradable shares (as stipulated by OSE, the number of listed shares (meaning the number of shares listed in the exchange listing the underlying security; the same shall apply hereinafter) excluding the number of shares held by large shareholders etc.; the same shall apply hereinafter) is 20,000 units or more (one unit shall mean, if a certain number of shares is set as one Share Unit (meaning the number of shares constituting one Share Unit prescribed in Article 2, Item 20 of the Companies Act (Act No. 86 of 2005); the same shall apply hereinafter), one Share Unit, and, if not, one share; the same shall apply hereinafter.);

(ii) The number of tradable shares is 35% or more of the number of listed shares; and

(iii) The number of shareholders (meaning the number of those who hold not less than one unit of stock) is 2,200 or more.

(b) The number of listed shares is 100,000 units or more.

(c) The monthly average trading volume (meaning the total trading volume in financial instruments exchange markets established by domestic financial instruments exchanges divided by the number of relevant months; the same shall apply hereinafter) for the past year (the period to date since the listing date for stocks that have been listed for less than one year) is 2,000 units or more.

b. The certificates satisfy the preceding a.(a) and the number of listed shares is 500,000 units or more.

(2) Investment trust beneficiary certificates

Satisfying either of the following a. or b.

a. Satisfying the following (a) through (d).

(a) The certificates shall be those pertaining to a securities investment trust which is managed such that the fluctuation rate of the net asset value per unit of investment trust assets tracks the fluctuation rate of a specific indicator (meaning quotations in the financial instruments market or other indicators).

(b) The number of beneficiaries (meaning those who hold beneficiary certificates for equal to or more than the trading unit) is 2,200 or more.

(c) The total number of listed beneficiary certificates is equal to or more than the number of units equivalent to 100,000 times the trading unit in the exchange listing the underlying security.

- (d) The monthly average trading volume for the past year (the period to date since the listing date for investment trust beneficiary certificates that have been listed for less than one year) is 2,000 units or more.
  - b. The certificates satisfy the preceding a.(a) and (b), and the total number of listed beneficiary certificates is equal to or more than the number of units equivalent to 500,000 times the trading unit in the exchange listing the underlying security.
- (3) Preferred equity contribution securities and investment securities
- Satisfying either of the following a. or b.
- a. Satisfying the following (a) through (e).
    - (a) The number of tradable preferred equity contribution securities or tradable investment securities (as stipulated by OSE, the number of listed preferred equity contribution securities or listed investment securities excluding the number of preferred equity contribution securities or listed investment securities held by large shareholders etc.; the same shall apply hereinafter) is 20,000 units or more.
    - (b) The number of tradable preferred equity contribution securities or tradable investment securities is 35% or more of the number of listed preferred equity contribution securities or listed investment securities.
    - (c) The number of preferred equity investment registries or investors is 2,200 or more.
    - (d) The number of listed preferred equity contribution securities or listed investment securities is 100,000 units or more.
    - (e) The monthly average trading volume for the past year (the period to date since the listing date for preferred equity contribution securities or investment securities that have been listed for less than one year) is 2,000 units or more.
  - b. The preferred equity contribution securities or investment securities satisfy the preceding a.(a) through (c), and the total number of listed preferred equity contribution securities or listed investment securities is 500,000 or more.
2. The monthly average trading volume prescribed in Items (1)a.(c), Item (2)a.(d) and Item(3)a.(e) of the preceding paragraph shall depend on the existing state on the day when underlying securities are selected.
3. Notwithstanding the provisions of Paragraph 1, in cases where the issuer company (including investment companies) of an underlying security undergoes corporate restructuring (meaning merger, stock swap, stock transfer and demerger, etc.; the same shall apply hereinafter), when selecting the securities issued by the newly created company or the surviving company relating to such corporate restructuring as underlying securities, or in cases where a reverse split (meaning the reverse split prescribed in Article 16, Item 2 of the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951); the same shall apply hereinafter in this paragraph) of an underlying security (limited to investment trust beneficiary certificates) when selecting the investment trust beneficiary certificate issued due to the reverse split as underlying securities, the

form of such corporation restructuring and reverse split and trading volume, etc. of the underlying securities before such corporate restructuring and reverse split shall be taken into account.

**Rule 10. Contract Months and Number thereof**

1. Securities options contracts shall be classified into the contract months whose last trading day is the day preceding the second Friday of each calendar month.
2. The number of contract months and the trading period stipulated in the preceding paragraph shall be four contract months of the nearest two contract months and the two specified contract months. The trading period of each contract month of the specified contract months shall be eight months and that of each contract month other than the specified contract months shall be two months.
3. The initial trading day when trading in a new contract month begins shall be the day following the last trading day of the contract month whose last trading day comes first among each contract month prescribed in the preceding paragraph.
4. Notwithstanding the provisions of the preceding three paragraphs, in the case where OSE newly selects an underlying security and lists securities options for such security and in other cases where OSE deems it necessary, OSE may change the number of contract months, the trading period, the last trading day and the first trading day.

**Rule 11. Exercise Prices and Number thereof**

1. Securities options contracts shall be classified into the exercise prices set for each contract month with respect to the underlying securities.
2. With respect to exercise prices prescribed in the preceding paragraph, five exercise prices shall be set per share (or per unit for preferred equity contribution securities, investment trust beneficiary certificates or investment securities; the same shall apply in the next rule, Rule 13 and Rule 26, Paragraph 8, Item 3) of each underlying security as integral multiples of the prices specified in the following items at intervals of such prices on the initial trading day of the relevant contract month, based on prices of the underlying security on the designated market (meaning the financial instruments exchange market designated by OSE based on trading volume, etc. among financial instruments exchange markets established by the exchange listing the underlying security; the same shall apply hereinafter). However, in cases where OSE deems it necessary, OSE may change the exercise prices and the number thereof.
  - (1) 25 yen where the exercise price is less than 500 yen
  - (2) 50 yen where the exercise price is 500 yen or more but less than 1,000 yen
  - (3) 100 yen where the exercise price is 1,000 yen or more but less than 2,000 yen
  - (4) 200 yen where the exercise price is 2,000 yen or more but less than 5,000 yen
  - (5) 500 yen where the exercise price is 5,000 yen or more but less than 30,000 yen
  - (6) 1,000 yen where the exercise price is 30,000 yen or more but less than 50,000 yen
  - (7) 2,500 yen where the exercise price is 50,000 yen or more but less than 100,000 yen

- (8) 10,000 yen where the exercise price is 100,000 yen or more but less than 200,000 yen
  - (9) 20,000 yen where the exercise price is 200,000 yen or more but less than 500,000 yen
  - (10) 50,000 yen where the exercise price is 500,000 yen or more but less than 1 million yen
  - (11) 10,000 yen where the exercise price is 1 million yen or more but less than 2 million yen
  - (12) 200,000 yen where the exercise price is 2 million yen or more but less than 5 million yen
  - (13) 500,000 yen where the exercise price is 5 million yen or more but less than 10 million yen
  - (14) 1 million yen where the exercise price is 10 million yen or more but less than 20 million yen
  - (15) 2 million yen where the exercise price is 20 million yen or more but less than 50 million yen
  - (16) 5 million yen where the exercise price is 50 million yen or more
3. In addition to the preceding paragraph, new exercise prices may be set for all or part of contract months as stipulated by OSE.

**Rule 12. Adjustment to Exercise Prices, etc.**

1. Exercise prices of securities options pertaining to the underlying securities where transactions therein fall into the ex-rights categories described in the following items shall be adjusted as stipulated by OSE on the date stipulated in the relevant item.
- (1) Ex-rights (excluding dividend (meaning dividend from surplus, and including distribution of profit of investment trust beneficiary certificates and that of money of investment securities; the same shall apply hereinafter) or ex-rights prescribed in the first sentence of the following item) resulting from a stock (including investment unit and beneficiary right; the same shall apply hereinafter) split, gratis allotment of shares or a paid-in capital increase
- The day stipulated by a financial instruments exchange that establishes the designated market (hereinafter referred to as the "designated exchange") as the ex-rights date pertaining to a stock split, gratis allotment of shares or a paid-in capital increase.
- (2) Ex-rights only for the rights to receive stocks resulting from shareholder directed spin-off (meaning a demerger in which all or part of the shares of a succeeding company or a newly created company will be delivered to the shareholders of the demerged company at the time of such demerger; the same shall apply hereinafter)
- The day following the day when, after the ex-rights (limited to the rights to receive stocks resulting from a shareholder directed spin-off) date pertaining to shareholder directed spin-off (meaning the day prescribed as the ex-rights date by the designated exchange; the same shall apply in the following paragraph), the initial price (hereinafter referred to as the "initial price after the ex-rights pertaining to shareholder directed spin-off") for such underlying security is determined on the designated market.
2. When exercise prices are adjusted under the provisions of the preceding paragraph, the quantity of an underlying security for one trading unit of the securities option shall be adjusted as stipulated by OSE. However, when the quantity to be adjusted is an integral multiple of the trading unit of underlying securities in cases where a stock split is conducted such that one share

of an underlying security is split into an integral multiple of one share or a gratis allotment of shares is conducted such that the same type of shares for integral multiple of one share is allotted to one share of relevant underlying securities, and when the final price (meaning the final price (including the final price of the quote displayed as prescribed by the designated exchange) for such underlying security on the designated market; provided, however, that in cases where there is no such contract price on the relevant day, it shall be a price stipulated by OSE) of the underlying security on the day preceding the ex-rights date pertaining to shareholder directed spin-off is an integral multiple of the initial price after the ex-rights pertaining to shareholder directed spin-off, and when OSE deems it necessary otherwise, the quantity of such underlying security shall not be adjusted.

3. Notwithstanding the preceding two paragraphs, in cases where OSE deems it necessary, OSE may adjust exercise prices of securities options in accordance with a method as stipulated by OSE on a case-by-case basis.

### **Rule 13. Special Setting of Exercise Prices**

1. In cases where the quantity has been adjusted under the provisions of Paragraph 2 of the preceding rule, with respect to such contract months, exercise prices in which one unit of securities options is a quantity pertaining to the trading unit of the underlying security shall be set, (hereinafter referred to as the "special setting of exercise prices"), in principle, in accordance with the classification of ex-rights set forth in the following items on the relevant day, separately from the exercise prices adjusted pursuant to Paragraph 1 of the preceding rule.
  - (1) Ex-rights resulting from a stock split, gratis allotment of shares or a paid-in capital increase, etc.

The day specified by the designated exchange as the ex-rights date for a stock split, gratis allotment of shares or a paid-in capital increase, etc.
  - (2) Ex-rights only for the rights to receive stocks resulting from shareholder directed spin-off

The day specified by the designated exchange as the day following the day on which the initial price after the ex-rights pertaining to shareholder directed spin-off is determined
2. With respect to the special setting of exercise prices prescribed excluding in each item of the preceding paragraph, five exercise prices shall be set per underlying security as integral multiples of the prices at intervals of such prices prescribed in each item of Rule 11, Paragraph 2 based on the prices of the underlying security on the designated market as determined by OSE.
3. With respect to part of or all contract months pertaining to underlying securities for which special setting of exercise prices is conducted, OSE shall not set new exercise prices based on the exercise prices adjusted pursuant to the Paragraph 1 of the preceding rule, and may set new exercise prices based on the exercise prices set resulting from special setting of exercise prices pursuant to the provisions specified by OSE.

## Section 2-2

### Subjects of Options Contracts on Government Bond Futures, etc.

#### Rule 13-2. Subjects of Contracts

1. The subjects of the government bond futures options contracts shall be the government bond futures options on standardized long-term government bonds enumerated in each of the following items.
  - (1) Government bond futures option that can execute a sale of government bond futures with a face value of 100 million yen at an exercise price for a contract month set in advance as the contract month of a government bond futures contract to be concluded by exercise. (see Notes 1 and 2 below).
    - (Note 1) Such contract month shall be hereinafter referred to as "underlying government bond futures contract month."
    - (Note 2) Such government bond futures options shall be hereinafter referred to as "government bond futures put options."
  - (2) Government bond futures option that can execute a purchase of government bond futures with a face value of 100 million yen at an exercise price for any of the underlying government bond futures contract month (hereinafter referred to as "government bond futures call options.").
2. In relation to government bond futures options, the term "issue" means government bond futures put options or government bond futures call options for which the same issue is designated as the subject of the government bond futures contract due to exercise, and that have the same exercise period expiration date and exercise price.

#### Rule 13-3. Contract Months and Number thereof

1. Government bond futures options contracts, with respect to government bond futures put options and government bond futures call options, shall be classified, in accordance with contract month classification for each issue designated as the subject of the government bond futures contract due to exercise, into the contract months whose last trading day falls on the last day (to be moved up in order if the day falls on a non-business day) of each month.
2. For the contract months specified in the preceding paragraph, with respect to those contract months whose last trading day falls in the month immediately preceding March, June, September, and December (hereinafter referred to as "quarterly contract months"), there shall be two contract months. The trading period of each contract month shall be six months. In such case, trading in a new quarterly contract month shall begin at the time prescribed by OSE on the day following the last trading day that arrives earliest among the last trading days of the two quarterly contract months.
3. For the contract months specified in Paragraph 1, with respect to those contract months other than

contract months whose last trading day falls in the month immediately preceding March, June, September, and December (see Note below), the trading period of each contract month shall be two months. In such case, trading in a new contract month shall begin at the time prescribed by OSE on the first day (to be moved down in order if the day falls on a non-business day; the same shall apply hereinafter) of the month immediately preceding the month to which the last trading day of the relevant contract month pertains.

(Note) Such contract months shall be hereinafter referred to as "contract months other than quarterly contract months."

4. Notwithstanding the provisions of Paragraphs 1 through 3 above, in cases where OSE deems it necessary, OSE may change the number and the trading period of contract months as well as the last trading day and the initial trading day.

#### **Rule 13-4. Underlying Government Bond Futures Contract Month**

Transactions in government bond futures options shall be executed with respect to a contract month of the government bond futures contract with the earliest day of settlement by delivery after the last trading day of each contract month as the underlying government bond futures contract month.

#### **Rule 13-5. Exercise Prices and Number thereof**

1. Government bond futures options contracts, either with respect to government bond futures put options or government bond futures call options, shall be classified into the exercise prices set for each contract month.
2. Exercise prices as prescribed in the preceding paragraph shall be integral multiples of 50/100 yen at 50/100 yen intervals per face value of 100 yen of the underlying government bond futures contract to be concluded by the exercise, and twenty-one (21) exercise prices shall be set at the time prescribed by OSE on the initial trading day of each contract month as specified by OSE. However, in cases where OSE deems it necessary, OSE may change the exercise prices and the number thereof.
3. In addition to the provisions of the preceding paragraph, OSE may set new exercise prices for all or some contract months pursuant to the provisions specified by OSE.

### **Section 3**

#### **Subjects of Index Options Contracts, etc.**

#### **Rule 14. Subjects of Contract**

1. The subjects of index options contracts shall be the index options enumerated in the following items that pertain to the underlying indices specified in the following paragraph.
  - (1) Index options that can effect a transaction in which the party acquiring the option receives from the other party the amount of money calculated by multiplying the difference between

- the actual index value and the exercise price by the contract multiplier (meaning the contract multiplier prescribed in Paragraph 3) pertaining to the underlying index when the actual index value falls below the exercise price (hereinafter referred to as "index put options")
- (2) Index options that can effect a transaction in which the party acquiring the option receives from the other party the amount of money calculated by multiplying the difference between the actual index value and the exercise price by the contract multiplier pertaining to the underlying index when the actual index exceeds the exercise price (hereinafter referred to as "index call options")
2. The underlying indices of index options contracts shall be the indices specified in each of the following items:
- (1) Nikkei Average
- (2) TOPIX
- (3) JPX-Nikkei Index 400
3. The contract multiplier shall be 1,000 yen for Nikkei Average Options (meaning the index options pertaining to the Nikkei Average; the same shall apply hereinafter) and JPX-Nikkei Index 400 Options (meaning the index options pertaining to the JPX-Nikkei Index 400; the same shall apply hereinafter) and 10,000 yen for TOPIX Options (meaning the index options pertaining to TOPIX; the same shall apply hereinafter).
4. In relation to index options contracts, the term "issue" (except as used in Rule 40, Paragraph 2) means index put options or index call options that have the same underlying index, exercise date and exercise price.

**Rule 15. Contract Months and Number thereof**

1. Index options contracts shall be classified into the contract months in accordance with the classification of the index options for contracts (meaning index options in index options contracts; the same shall apply hereinafter) enumerated in the following items.
- (1) Nikkei Average Options
- a. Regular contracts (meaning contract months whose last trading day is the trading day that ends on the day preceding the second Friday of each calendar month; the same shall apply hereinafter)
- b. Weekly contracts (meaning contract months whose last trading day is the trading day that ends on the day preceding the second Friday (excluding the second Friday of each calendar month, and to be moved up in order if it falls on a non-business day) of each week; the same shall apply hereinafter)
- (2) TOPIX Options and JPX-Nikkei Index 400 Options
- Regular contracts
2. The number of contract months and the trading period specified in the preceding paragraph shall be as prescribed in the following relevant item in accordance with the classification of the index

options for contracts enumerated in each of the following items.

(1) Nikkei Average Options

a. Regular contracts

Thirteen contract months (limited to regular contracts) of the specified contract months and the nearest six contract months (limited to regular contracts) other than such specified contract months shall be set. The trading period of each specified contract month shall be five years (one year and six months with respect to each contract month of March and September) and that of each contract month other than the specified contract months shall be nine months.

b. Weekly contracts

The nearest four weekly contracts, and the trading period of each weekly contract shall be five or six weeks.

(2) TOPIX Options and JPX-Nikkei Index 400 Options

Thirteen contract months of the specified contract months and six contract months other than such specified contract months shall be set. The trading period of each contract month shall be, with respect to the specified contract months, five years (one year and six months with respect to each contract month of March and September) and, with respect to contracts months other than the specified contract months, nine months.

3. The initial trading day when trading in a new contract month begins shall be as prescribed in each of the following items in accordance with the classification of the contract months enumerated in each such item.

(1) Regular contracts

It shall be a day following the day on which the last trading day ends for the contract month whose last trading day comes first among contract months prescribed in Item 1, Sub-item a. and Item 2 of the preceding paragraph, and the trading shall start at the time specified by OSE on such day.

(2) Weekly contracts

It shall be a day following the day on which the last trading day ends for the contract month whose last trading day comes first among contract months prescribed in Item 1, b. of the preceding paragraph, and the trading shall start at the time specified by OSE on such day.

4. Notwithstanding the provisions of the preceding three paragraphs, in the case where OSE newly lists index options for contracts and in other cases where OSE deems it necessary, OSE may change the number of contract months and the trading period as well as the last trading day and the initial trading day.

## **Rule 16. Exercise Prices and Number thereof**

1. Index options contracts shall be classified into the exercise prices set for each contract month with respect to the index options for contracts.

2. Exercise prices prescribed in the preceding paragraph shall be set at the time specified by OSE of the initial trading day pursuant to the provisions of the following relevant item in accordance with the classification of the index options for contracts enumerated in each of the following items; provided, however, that in cases where OSE deems it necessary, OSE may change the exercise prices and the number thereof.

(1) Nikkei Average Options

a. Regular contracts

With respect to the numerical value of the Nikkei Average in an index options contract, 33 exercise prices shall be set as an integral multiple of 250 yen at 250-yen intervals as specified by OSE.

b. Weekly contracts

With respect to the numerical value of the Nikkei Average in an index options contract, 17 exercise prices shall be set as an integral multiple of 125 yen at 125-yen intervals as specified by OSE.

(2) TOPIX Options

With respect to the numerical value of the TOPIX in an index options contract, 13 exercise prices shall be set as an integral multiple of 50 points at 50-point intervals as specified by OSE.

(3) JPX-Nikkei Index 400 Options

With respect to the numerical value of the JPX-Nikkei Index 400 in an index options contract, 17 exercise prices shall be set as an integral multiple of 500 point at 500-point intervals as specified by OSE.

3. In addition to the preceding paragraph, as specified by OSE, new exercise prices may be set at the value prescribed in the following relevant item for all or part of contract months in accordance with the classification of the index options for contracts enumerated in each of the following items:

(1) Nikkei Average Options

a. Regular contracts

- (a) Regular contracts for which the second Friday of the month in which the time to expiration for such contract month will be three months has not arrived

Integral multiples of 250 yen at 250-yen intervals

- (b) Regular contracts other than the regular contracts described in (a) above.

Integral multiples of 125 yen set at 125-yen intervals

b. Weekly contracts

Integral multiples of 125 yen set at 125-yen intervals

(2) TOPIX Options

- a. Contract months for which the second Friday of the month in which the time to expiration for such contract month will be three months has not arrived

Integral multiples of 50 points at 50-point intervals

- b. Contract months other than the contract months listed in a above

Integral multiples of 25 points set at 25-point intervals

(3) JPX-Nikkei Index 400 Options

- a. Contract months for which the second Friday of the month in which the time to expiration for such contract month will be three months has not arrived

Integral multiples of 500 points at 500-point intervals

- b. Contract months other than specified contract months listed in a above

Integral multiples of 250 points set at 250-point intervals

## Section 4

### Strategy Trading

#### Rule 17. Strategy Trading

1. A Trading Participant (meaning a Futures, etc. Trading Participant (meaning a Futures, etc. Trading Participant defined in Rule 2, Paragraph 2 of the Trading Participant Regulations; the same shall apply hereinafter.) or a Government Bond Futures, etc. Trading Participant (meaning a Government Bond Futures, etc. Trading Participant defined in Rule 2, Paragraph 3 of the Trading Participant Regulations; the same shall apply hereinafter.); the same shall apply hereinafter except in Rules 41 and 54.) may conduct a transaction that simultaneously executes sales or purchases of transactions in multiple contract months or issues pertaining to market derivatives contracts (limited to sales and purchases for the same customer account or its own account) (hereinafter referred to as "strategy trading") in the trading sessions (excluding a closing auction).
2. Combinations of sales or purchases of the transactions in market derivatives contracts executed by strategy sale trading or strategy purchase trading shall be prescribed by OSE by each type of strategy trading specified by OSE; provided, however, that this shall not apply to strategy trading for options contracts.
3. When conducting strategy trading, a Trading Participant shall make bids or offers using values obtained by the calculation method of the price of strategy trading prescribed by OSE (hereinafter referred to as "strategy price").
4. With respect to strategy trading, strategy offers shall refer to offers pertaining to strategy sale trading and strategy bids shall refer to bids relating to strategy purchase trading.

## Chapter 3

### Trading Session

#### Rule 18. Division of Trading Sessions and Trading Hours, etc.

1. Trading sessions for market derivatives trading on the auction market (meaning, among the markets of OSE, markets on which market derivatives trading is conducted by auction) (hereinafter referred to simply as "market derivatives trading" through in this section to in Chapter 5) and trading hours of each trading session shall be set forth in each of the following items according to the classification of the market derivatives trading enumerated in the following items:

(1) Government bond futures contracts and government bond futures options contracts

The trading sessions shall be divided into the morning session, afternoon session, and night session, and the trading hours of each trading session shall be as specified in the following a. through c. according to the classification of the trading session.

a. Morning session

(a) Opening auction

8:45 a.m.

(b) Regular session

From 8:45 a.m. to 11:00 a.m.

(c) Closing auction

11:02 a.m.

b. Afternoon session

(a) Opening auction

12:30 p.m.

(b) Regular session

From 12:30 p.m. to 3:00 p.m.

(c) Closing auction

3:02 p.m.

c. Night session

(a) Opening auction

3:30 p.m.

(b) Regular session

From 3:30 p.m. to 5:25 a.m. on the following day

(c) Closing auction

5:30 a.m. on the following day

(2) Index futures contracts and index options contracts

The trading sessions shall be divided into the day session and night session, and the trading hours of each trading session shall be as specified in the following a. and b. according to the classification of the trading session; provided, however, that the trading sessions for index futures contracts whose underlying index is the TAIEX shall only be the day session.

a. Day session

(a) Opening auction

Opening auction shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):

(i) Index futures contracts (excluding index futures contracts enumerated in (ii)).

8:45 a.m.

(ii) Index futures contracts based on the Nikkei 225 VI and index option contracts

9:00 a.m.

(b) Regular session

Regular session shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):

(i) Index futures contracts (excluding index futures contracts enumerated in (ii)).

From 8:45 a.m. to 3:10 p.m.

(ii) Index futures contracts based on the Nikkei 225 VI and index option contracts

From 9:00 a.m. to 3:10 p.m.

(c) Closing auction

3:15 p.m.

b. Night session

(a) Opening auction

4:30 p.m.

(b) Regular session

Regular session shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):

(i) Index futures contracts (excluding those enumerated in (ii)) and index options contracts

From 4:30 p.m. to 5:25 a.m. on the following day

(ii) Index futures contracts based on the Nikkei 225 VI

From 4:30 p.m. to 6:55p.m.

(c) Closing auction

Closing auction shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):

(i) Index futures contracts (excluding those enumerated in (ii)) and index options contracts

5:30 a.m. on the following day

(ii) Index futures contracts based on the Nikkei 225 VI

7:00 p.m.

(3) Securities options contracts

The trading sessions shall be divided into the morning session and afternoon session, and the trading hours of each trading session shall be as specified in the following a. and b. according to the classification of the trading session.

- a. Morning session
    - (a) Opening auction  
9:00 a.m.
    - (b) Regular session  
From 9:00 a.m. to 11:30 a.m.
    - (c) Closing auction  
11:35 a.m.
  - b. Afternoon session
    - (a) Opening auction  
12:30 p.m.
    - (b) Regular session  
From 12:30 p.m. to 3:10 p.m.
    - (c) Closing auction  
3:15 p.m.
2. OSE may, when it deems necessary, temporarily change the trading hours prescribed in the preceding paragraph. In this case, OSE shall give advance notice to that effect to Trading Participants.

**Rule 19. Non-business Days**

1. OSE shall have the days specified in each of the following items as its non-business days:
  - (1) Sundays;
  - (2) National holidays;
  - (3) If a national holiday falls on Sunday, the first non-national holiday after that national holiday;
  - (4) The day between two national holidays;
  - (5) Saturdays;
  - (6) The first three (3) days of the year; and
  - (7) December 31
2. OSE may have an extraordinary non-business day, when it deems this necessary. In this case, OSE shall give advance notice to that effect to Trading Participants.
3. Trading (including the J-NET trading set forth in Rule 2, Item 1 of the Special Rules for the Business Regulations and Brokerage Agreement Standards relating to the J-NET Market (hereinafter referred to as the "Special Rules for J-NET Market")(hereinafter referred to as "J-NET trading")) shall not be conducted on a non-business day (meaning the non-business day prescribed in Paragraph 1, and including the extraordinary non-business day prescribed in the preceding paragraph; the same shall apply hereinafter); provided, however, that this shall not apply to trading hours prescribed in Paragraph 1, Item 2 of the preceding rule (including the trading hours of J-NET trading prescribed in Rule 4, Paragraph 1, Item 1 of the Special Rules for J-NET Market) in cases where the closing of a trading session on a trading day falls upon a

non-business day.

**Rule 20. Temporary Suspension and Temporary Conducting of Trading Session**

OSE may temporarily suspend a trading session in whole or in part or temporarily conduct an additional trading session in whole or in part, when it deems this necessary.

**Rule 21. Notice of Temporary Suspension or Temporary Conducting of Trading Session**

When OSE declares a temporary suspension of a trading session or temporary conducting of an additional trading session, it shall give advance notice to that effect to Trading Participants.

**Rule 22. Trading through Trading Systems**

1. Market derivatives trading during trading sessions shall be conducted through the trading systems using computers, etc. set up by OSE (hereinafter referred to as "trading systems").
2. Indication of prices of index options shall be as prescribed in the relevant items in accordance with the classification of the index options for contracts enumerated in each of the following items:
  - (1) Nikkei Average Options  
One yen shall be equivalent to 1,000 yen.
  - (2) TOPIX Options  
One point shall be equivalent to 10,000 yen.
  - (3) JPX-Nikkei Index 400 Options  
One point shall be equivalent to 1,000 yen.

**Chapter 4**

**Market Derivatives Trading on the Auction Market**

**Section 1**

**Methods of Contract Formation, etc.**

**Rule 23. Principle of Auction**

1. Market derivatives trading shall be conducted by auction.
2. Priority of bids and offers in an auction shall be as specified in each of the following items.
  - (1) A lower offer shall have priority over higher offers, and a higher bid shall have priority over lower bids.
  - (2) For priority of bids and offers made at the same price, the bids or offers earlier shall have priority over bids or offers made later.
  - (3) A market order shall have priority over other bids and offers in terms of price.
3. In applying the provisions of the preceding paragraph to strategy trading, the terms "price" in the preceding paragraph shall be read as "strategy price," "offer" shall be read as "strategy offer," and

"bid" shall be read as "strategy bid."

**Rule 24. Individual Auction**

1. Trading by auction prescribed in Paragraph 1 of the preceding rule shall be on an individual auction basis.
2. Except for the cases prescribed in Paragraph 4, the individual auction in a regular session shall be carried out by matching each order individually according to the priority of orders specified in Paragraph 2 of the preceding rule at such contract price (including contract value defined in Rule 4, Item 5, a.(b) and b. of the same item; the same shall apply in this chapter and Rule 55) that the lowest offer and the highest bids are matched through competition among bids, among offers and between bids and offers.
3. The individual auction in an opening auction or in a closing auction shall be carried out by matching each order individually according to the priority of bids and offers specified in Paragraph 2 of the preceding rule at a contract price enumerated in each of the following items through competition among bids, among offers and between bids and offers.
  - (1) The price where bids and offers match among the prices that are integral multiples of the minimum fluctuation of bids and offers falling within the range between (a) the lowest price that is an integral multiple of the minimum fluctuation of bids and offers from the prices that are higher than the highest price for orders in the book and (b) the highest price that is an integral multiple of the minimum fluctuation of bids and offers from the prices that are lower than the lowest price for orders in the book
  - (2) In the event multiple prices match the conditions in the preceding item, the price where the traded volume is the largest at the execution of the transaction
  - (3) In the event multiple prices match the conditions in the preceding item, the price where the difference (hereinafter referred to as "imbalanced volume") is smallest between (a) the sum total of all market offers and offers equal to and lower than said price and (b) the sum total of all market bids and bids equal to and higher than said price.
  - (4) In the event multiple prices match the conditions in the preceding item:
    - a. When the imbalanced volume in all the prices becomes selling on balance, the lowest price
    - b. When the imbalanced volume in all the prices becomes buying on balance, the highest price
    - c. When neither the preceding a. or b. applies:
      - (a) When the highest price among said prices (limited to the lowest price among the prices where the imbalanced volume becomes selling on balance and the highest price among the prices where the imbalanced volume becomes buying on balance, when the prices of buying on balance and selling on balance are included in the prices where the imbalanced volume is minimum; the same shall apply hereinafter in this c) is equal to or less than the immediately preceding contract price (or, in the event there is no

- contract price on said trading day, the base price for the price limits on bids and offers; the same shall apply hereinafter in this c), the said highest price
- (b) When there is an immediately preceding contract price between the lowest price and highest price of said prices, the said immediately preceding contract price
- (c) When the lowest price among said prices is equal to or higher than the immediately preceding contract price, the said lowest price
4. When determining a contract price at the time of resumption after the halt in the event that trading is halted as stipulated by OSE or when OSE deems it necessary from the status of bids and offers, the individual auction according to the provisions of the preceding paragraph shall be carried out.
  5. Notwithstanding the provisions of Paragraph 3, no transaction shall be effected when the price of transactions to determine a contract price in a closing auction exceeds the limit of price fluctuation range prescribed by OSE based on the reference price prescribed by OSE.
  6. In applying the provisions of Paragraph 2 through Paragraph 4 to strategy trading, the terms "contract price" shall be read as "contract strategy price," "price" shall be read as "strategy price," "offer" shall be read as "strategy offer," "bid" shall be read as "strategy bid" and "the base price for the price limits on bids and offers" shall be read as "the price prescribed by OSE on a case-by-case basis."
  7. When strategy trading is executed, the contract price pertaining to the sale or purchase of the market derivatives trading executed according to the combination shall be stipulated by OSE based on the contract price of strategy trading.

**Rule 25. Cancellation of Transactions**

1. In cases where a transaction is effected due to an erroneous order, if OSE deems that the settlement thereof is extremely difficult and the market is likely to be confused, OSE may cancel the transaction specified by OSE.
2. In cases where transaction records in the OSE's systems are lost due to natural disaster or other unavoidable reasons, if OSE deems it difficult to restore all the lost records, OSE may cancel transactions which it designates on a case-by-case basis.
3. In cases where OSE cancels transactions pursuant to the provisions of the preceding two paragraphs, such transactions shall be deemed as if it were never effected at all.
4. Even in cases where a Trading Participant suffers damage because OSE cancels a transaction pursuant to the provisions of Paragraph 1, the Trading Participant shall be unable to claim for compensation for the damage against the Trading Participant that has placed an erroneous order; provided, however, that the same shall not apply to cases where deliberate action or gross negligence is deemed to have been seen in a Trading Participant.
5. In cases where a Trading Participant suffers damage because OSE cancels a transaction pursuant to the provisions of Paragraph 1 or Paragraph 2, the Trading Participant shall be unable to claim for compensation for the damage against OSE; provided, however, that the same shall not apply

to cases where deliberate action or gross negligence is deemed to have been seen in OSE.

## Section 2

### Bids and Offers and Trading Unit

#### Rule 26. Bids and Offers

1. A Trading Participant shall make a bid or offer when it intends to conduct market derivatives trading. In this case, the Trading Participant shall clearly inform OSE of the matters enumerated in the following items.
  - (1) Whether such bid or offer is made for its customer account or for its own account;
  - (2) If such bid or offer is made for low latency trading (meaning low latency trading prescribed in Article 2, Paragraph 41 of the Act; the same shall apply hereinafter), to that effect.
2. Bids and offers in the preceding item shall be made by inputting such bids and offers using the Trading Participant Terminal Device.
3. A Trading Participant may make bids and offers during the periods specified in the following relevant item in accordance with the classification of the market derivatives trading enumerated in the following items; provided, however, that bids and offers for strategy trading may only be made in an opening auction and a regular session.
  - (1) Government bond futures contracts and government bond futures options contracts
    - a. Morning session
      - (a) Opening auction  
Between 8:00 a.m. and 8:45 a.m.
      - (b) Regular session  
Between 8:45 a.m. and 11:00 p.m.
      - (c) Closing auction  
Between 11:00 a.m. and 11:02 a.m.
    - b. Afternoon session
      - (a) Opening auction  
Between 12:05 p.m. and 12:30 p.m.
      - (b) Regular session  
Between 12:30 p.m. and 3:00 p.m.
      - (c) Closing auction  
Between 3:00 p.m. and 3:02 p.m.
    - c. Night session
      - (a) Opening auction  
Between 3:25 p.m. and 3:30 p.m.
      - (b) Regular session  
Between 3:30 p.m. and 5:25 a.m. on the following day
      - (c) Closing auction

Between 5:25 a.m. and 5:30 a.m. on the following day

(2) Index futures contracts and index options contracts

a. Day session

(a) Opening auction

Opening auction shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):

(i) Index futures contracts (excluding index futures contracts among the contracts enumerated in (ii))

Between 8:00 a.m. and 8:45 a.m.

(ii) Index futures contracts based on the Nikkei 225 VI and index option contracts

Between 8:00 a.m. and 9:00 a.m.

(b) Regular session

Regular session shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):

(i) Index futures contracts (excluding index futures contracts enumerated in (ii))

Between 8:45 a.m. and 3:10 p.m.

(ii) Index futures contracts based on the Nikkei 225 VI and index option contracts

Between 9:00 a.m. and 3:10 p.m.

(c) Closing auction

Between 3:10 p.m. and 3:15 p.m.

b. Night session

(a) Opening auction

Between 4:15 p.m. and 4:30 p.m.

(b) Regular session

Regular session shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):

(i) Index futures contracts (excluding those enumerated in (ii)) and index options contracts

Between 4:30 p.m. and 5:25 a.m. on the following day

(ii) Index futures contracts based on the Nikkei 225 VI

Between 4:30 p.m. and 6:55 p.m.

(c) Closing auction

Regular session shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):

(i) Index futures contracts (excluding those enumerated in (ii)) and index options contracts

On the following day, between 5:25 a.m. and 5:30 a.m.

(ii) Index futures contracts based on the Nikkei VI

Between 6:55 p.m. to 7:00 p.m.

(3) Securities options contracts

a. Morning session

(a) Opening auction

Between 8:00 a.m. and 9:00 a.m.

(b) Regular session

Between 9:00 a.m. and 11:30 a.m.

(c) Closing auction

Between 11:30 a.m. and 11:35 a.m.

b. Afternoon session

(a) Opening auction

Between 12:05 p.m. and 12:30 p.m.

(b) Regular session

Between 12:30 p.m. and 3:10 p.m.

(c) Closing auction

Between 3:10 p.m. and 3:15 p.m.

4. Notwithstanding the provisions of the preceding paragraph, OSE shall determine on a case-by-case basis the period during which bids and offers can be made in the event that trading hours are changed pursuant to Rule 18, Paragraph 2 or that trading is halted as specified by OSE.
5. When bids and offers prescribed in Paragraph 3 are made, OSE shall immediately record the particulars thereof through the OSE trading systems according to their priority.
6. Bids and offers shall be made with a validity condition or an executed volume condition stipulated by OSE.
7. A Trading Participant may add conditions stipulated by OSE to bids and offers; provided, however, that this shall not apply in cases where any malfunction in the operation of the trading systems has occurred or in other cases where OSE deems it necessary.
8. The minimum fluctuation of bids and offers shall be as prescribed in the following relevant item in accordance with the classification of the market derivatives contracts enumerated in each of the following items:
  - (1) Government bond futures contracts
    - a. Large contract  
0.01 yen per 100-yen face value.
    - b. Mini contract  
0.005 yen
  - (2) Index futures contracts
    - a. Nikkei Average
      - (a) Large contract  
10 yen (or 1 yen for strategy trading)

- (b) Mini contract
    - 5 yen (or 1 yen for strategy trading)
  - b. TOPIX
    - (a) Large contract
      - 0.5 points (or 0.1 points for strategy trading)
    - (b) Mini contract
      - 0.25 points (or 0.05 points for strategy trading)
  - c. JPX-Nikkei Index 400 and FTSE China 50 Index
    - 5 points (or 1 point for strategy trading)
  - d. RNP Index, TOPIX Core30, and TSE REIT Index
    - 0.5 points (or 0.1 points for strategy trading)
  - e. TOPIX Banks Index
    - 0.1 points
  - f. TSE Mothers Index, DJIA ,Nifty 50 and TAIEX
    - 1 point (or 0.1 points for strategy trading regarding TSE Mothers Index)
  - g. Nikkei 225 VI
    - 0.05 points (or 0.01 points for strategy trading)
  - h. Nikkei Average Dividend Index
    - 0.1 yen
  - i. TOPIX Dividend Index and TOPIX Core30 Dividend Index
    - 0.01 points
- (3) Securities options contracts
- a. The minimum fluctuation of bids and offers in securities options trading shall be as prescribed below per underlying security according to the price of bids and offers in securities options contracts; provided, however, that it shall be 0.1 yen for strategy trading.

Price of bids and offers	Minimum fluctuation of bids and offers
Less than 50 yen	0.1 yen
50 yen or more but less than 1,000 yen	0.5 yen
1,000 yen or more but less than 3,000 yen	1 yen
3,000 yen or more but less than 30,000 yen	5 yen
30,000 yen or more but less than 50,000 yen	25 yen
50,000 yen or more but less than 100,000 yen	50 yen
100,000 yen or more but less than 1,000,000 yen	500 yen
1,000,000 yen or more	5,000 yen

- b. In applying the provisions of the preceding paragraph to transactions in the securities options contract pertaining to an underlying security whose number of trading units is an

odd number, with respect to the minimum fluctuation of bids and offers in securities options trading applicable to the underlying security which is less than 50 yen, "0.1 yen" shall be "1 yen," and in the case of such a security which is 50 yen or more, but less than 1,000 yen, "0.5 yen" shall be "1 yen." However, in cases of strategy trading pertaining to such underlying security, it shall be 1 yen.

(4) Government bond futures options contracts

0.01 yen per face value of 100 yen of the underlying issue of the government bond futures transaction to be executed by exercise

(5) Index options contracts

a. Nikkei Average Options

1 yen for bids and offers of 50 yen or less, 5 yen for bids and offers of more than 50 yen to 1,000 yen or less, and 10 yen for bids and offers of more than 1,000 yen (or 1 yen for strategy trading)

b. TOPIX Options

0.1 points for bids and offers of 20 points or less, and 0.5 points for bids and offers of more than 20 points (or 0.1 points for strategy trading)

c. JPX-Nikkei Index 400 Options

1 point for bids and offers of 50 point or less, and 5 points for bids and offers of more than 50 points (or 1 point for strategy trading)

9. Bids and offers in large contracts for government bond futures contracts shall be made by flat quotation.
10. Bids and offers shall not be made at prices exceeding the price fluctuation range prescribed by OSE; provided, however, this shall not apply in cases where bids and offers are made for strategy trading.
11. When a Trading Participant intends to make bids and offers, it shall not be required to clarify the classification of new sale or new purchase, or resale or repurchase.
12. In addition to those prescribed in these Regulations, matters necessary for bids and offers shall be prescribed by OSE.

**Rule 27. Request for Quotes**

1. A Trading Participant may, when intending to execute a transaction, request bids and offers (hereinafter referred to as "request for quotes") using a Trading Participant Terminal Device.
2. In the event that OSE deems that there is, or is likely to be, abnormality in the situation of request for quotes, or deems that it is inappropriate to continue request for quotes for the purpose of administration of transactions, OSE may suspend the provision of request for quotes.
3. In addition to those specified in the preceding two paragraphs, matters necessary for requests for quotes shall be stipulated by OSE separately.

**Rule 28. Implied Function**

1. For the types of strategy trading specified by OSE, OSE may treat bids and offers for strategy trading as bids and offers for market derivatives trading subject to said strategy trading according to the status of said strategy trading and subject to said strategy trading; provided, however, that this shall not apply in cases where any malfunction in the operation of the trading systems has occurred or in other cases where OSE deems it necessary.
2. Notwithstanding the provisions of Rule 23, the priority of the bids and offers for market derivatives trading in the preceding paragraph shall be determined by OSE on a case-by-case basis.

**Rule 29. Trading Unit**

1. The trading unit shall be as prescribed in the following relevant item in accordance with the classification of the market derivatives contracts enumerated in each of the following items:
  - (1) Government bond futures contracts
    - a. Large contract  
A face value of 100 million yen
    - b. Mini contract  
An amount obtained by multiplying 100,000 yen by the numerical value of the price of the standardized long-term government bond.
  - (2) Index futures contracts  
The unit of trading in index futures contracts shall be obtained by multiplying the amount prescribed in the following a. through e. by the numeric value of the underlying index in accordance with the classification of the underlying indices enumerated in the following a. through e.:
    - a. Nikkei Average
      - (a) Large contract  
1,000 yen
      - (b) Mini contract  
100 yen
    - b. TOPIX
      - (a) Large contract  
10,000 yen
      - (b) Mini contract  
1,000 yen
    - c. JPX-Nikkei Index 400  
100 yen
    - d. RNP Index, TOPIX Banks Index, Nikkei 225 VI, TOPIX Dividend Index, and TOPIX

Core 30 Index

10,000 yen

e. TSE Mothers Index, TOPIX Core30, TSE REIT Index, and Nikkei Average Divided Index

1,000 yen

f. DJIA, Nifty 50, TAIEX and FTSE China 50 Index

100 yen

(3) Securities options contracts

The minimum unit of trading shall be one unit of a securities put option or securities call option.

(4) Government bond futures options contracts

The minimum unit of trading shall be one unit of a government bond futures put option or government bond futures call option.

(5) Index options contracts

The minimum unit of trading shall be one unit of an index put option or an index call option per index option for contracts.

### Section 3

#### Confirmation of Transactions, etc.

#### Rule 30. Announcement of Contract Prices

OSE shall, when a transaction has been effected in market derivatives contracts, announce the contract price.

#### Rule 31. Reporting and Confirmation of Transactions

1. OSE shall, when a transaction has been effected in market derivatives contracts, immediately report the details of the transaction through the trading systems to the selling and buying Trading Participant.
2. A Trading Participant shall, upon receipt of reports on the details of the transaction through the Trading Participant Terminal Device with respect to market derivatives contracts, immediately confirm the details of the transaction.

### Section 4

#### Suspension of Trading, etc.

#### Rule 32. Suspension of Trading

OSE may suspend trading in all or part of market derivatives contracts in the cases enumerated in each of the following items, in accordance with the provisions specified by OSE:

- (1) In cases where trading in the underlying security is suspended pursuant to Rule 29 (excluding

Item 4) of the Business Regulations or Rule 19 (excluding Item 4) of the Special Regulations of Business Regulations and Brokerage Agreement Standards Concerning ToSTNeT Market of TSE (in cases where a measure equivalent thereto is taken on the designated market, if the designated market is not the financial instruments exchange market established by TSE.

- (2) In cases where the issuer of the underlying security undertakes a shareholder directed spin-off.
- (3) In cases where OSE deems that there is, or is likely to be, abnormality in the trading situation and deems that it is inappropriate to continue trading for the purpose of administration of transactions.
- (4) In cases where OSE deems it difficult to continue trading through the OSE trading systems due to problems in the trading systems operations, etc.

### **Rule 33. Temporary Trading Halt**

1. In the event that, with respect to trading in the central contract month (meaning a contract month designated by OSE as the one having the most liquidity among the contract months for futures trading whose underlying issue (meaning standardized government bond that is the subject of government bond futures contracts; the same shall apply hereinafter) or underlying index is the same as said central contract month; the same shall apply hereinafter) for futures trading (excluding trading in mini contracts and index futures contracts based on the TAIEX) in a regular session, bids or offers have been made at a price specified in each of the following items and no transaction (excluding a transaction effected by strategy trading) is executed outside the range specified by OSE during the time prescribed by OSE, OSE shall temporarily halt trading in the futures contracts whose underlying issue or underlying index is the same as said central contract month for the period deemed appropriate by OSE from the time specified by OSE on a case-by-case basis immediately after such event has occurred; provided, however, in the cases prescribed by OSE and the cases where OSE deems that it is inappropriate to conduct temporary halt of trading based on the trading situation, etc., OSE has a discretion not to conduct temporary halt of trading.
  - (1) For offers, the lowest price of the price limit pursuant to the provisions of Rule 26, Paragraph 10 (hereinafter referred to as "price limit on bids and offers") (including the lowest price after the price limit on bids and offers has been expanded pursuant to the provisions of the following paragraph)
  - (2) For bids, the highest price of the price limit on bids and offers (including the highest price after the price limit on bids and offers has been expanded pursuant to the provisions of the following paragraph)
2. OSE shall, when temporarily halting trading pursuant to the preceding paragraph, expand the price limit on bids and offers for futures contracts whose underlying issue or underlying index is the same as such central contract month as specified in each of the following items:

- (1) In cases falling under Item 1 of the preceding paragraph:  
The lower limit of the price limit on bids and offers shall be expanded as stipulated by OSE.
- (2) In cases falling under Item 2 of the preceding paragraph:  
The upper limit of the price limit on bids and offers shall be expanded as stipulated by OSE.
3. In the event that OSE has temporarily halted trading in large contracts for standardized long-term government bonds pursuant to the preceding paragraph, OSE shall temporarily halt trading in mini contracts for the duration of the trading halt of such large contracts. In such case, the price limit on bids and offers for mini contracts shall be expanded as specified by OSE.
4. In the event that OSE has temporarily halted trading in government bond futures contracts or index futures contracts pursuant to Paragraph 1, OSE shall temporarily halt trading in the government bond futures options contracts or the index options contracts whose underlying issue or underlying index is the same as the government bond futures contracts or the index futures contracts for the duration of the trading halt of such government bond futures options contracts or such index futures contracts.
5. When OSE accepts bids or offers that will be matched beyond the price fluctuation range prescribed by OSE from the price prescribed by OSE as a reference (referred to as the "reference price" in the following paragraph) for each contract month or issue of market derivatives contracts, OSE shall temporarily halt trading in said contract month or issue for the period deemed appropriate by OSE from the time all transactions have been executed in said price fluctuation range.
6. In cases where OSE has halted trading pursuant to the preceding paragraph (including cases where it has halted trading pursuant to this paragraph) and bids or offers are matched at a price beyond the price fluctuation range prescribed by OSE from the reference price after the period deemed appropriate by OSE, it shall update such reference price to the price of the limit of such price fluctuation range in accordance with the provisions specified by OSE, and OSE shall continue to halt trading for a period deemed appropriate by OSE.
7. When OSE temporarily halts trading in accordance with the provisions of each of the preceding paragraphs (excluding Paragraph 2), OSE shall temporarily halt strategy trading, through which a sale or purchase of the market derivatives contracts is effected, for the duration of the temporary trading halt.

## **Chapter 4-2**

### **Position Transfer**

#### **Rule 33-2. Position Transfer**

1. In these Regulations, an affiliate foreign exchange means an entity which operates a foreign financial instruments market (meaning a market which is similar to a financial instruments exchange market and located in a foreign country) specified by OSE and which has concluded an arrangement pertaining to position transfers (meaning position transfers prescribed in Rule 33-4,

- Paragraph 2; the same shall apply hereinafter).
2. In these Regulations, an affiliate foreign clearing institution means an entity which conducts the same type of business as financial instruments obligation assumption related to affiliate foreign market derivatives transactions which are effected on an affiliate foreign exchange.
  3. In these Regulations, an affiliate foreign exchange, etc. means an affiliate foreign exchange or affiliate foreign clearing institution.
  4. In these Regulations, an affiliate foreign market derivatives transaction means a transaction specified by OSE which is a foreign market derivatives transaction effected on an affiliate foreign exchange.
  5. In these Regulations, a Foreign Clearing Participant means a clearing participant of an affiliate foreign exchange, etc.
  6. In these Regulations, a member-link agreement is an agreement to execute position transfers that is concluded between a Trading Participant and a Foreign Clearing Participant in a form specified by OSE.

**Rule 33-3. Notification of Conclusion of Member-link Agreement, etc.**

1. When a Trading Participant intends to conclude a member-link agreement with a Foreign Clearing Participant, such Trading Participant must notify OSE in advance as prescribed by OSE.
2. When a Trading Participant intends to terminate or modify a member-link agreement, such Trading Participant must notify OSE of such details by the fifth business day prior to the date on which such termination or modification occurs.

**Rule 33-4. Execution of Position Transfer**

1. In cases where the details of an unsettled contract related to an affiliate foreign market derivatives transaction (hereinafter referred to as a "foreign position") are transmitted to OSE from an affiliate foreign exchange, etc., OSE shall confirm matters specified by OSE regarding the contents of such details.
2. When OSE confirms and approves the contents of such details prescribed in the preceding paragraph, the position transfer shall be executed (meaning execution of a market derivatives transaction specified by OSE through a trading method other than auction trading under the name of a Trading Participant that concludes a member-link agreement with a Foreign Clearing Participant as described in such details; the same shall apply hereinafter).
3. The contract price of the market derivatives transaction executed by position transfer shall be a price specified by OSE.
4. When OSE confirms and approves the contents of such details prescribed in Paragraph 2, it shall notify the affiliate foreign exchange, etc. to that effect.
5. In the cases enumerated in each of the following items, OSE may choose not to give approval prescribed in Paragraph 2. In such cases, no position transfers shall be executed on such trading

day:

- (1) Cases where OSE cannot confirm the matters specified by OSE regarding the contents of such details prescribed in Paragraph 1 by the time specified by OSE on each trading day;
- (2) Cases where the details prescribed in Paragraph 1 contains description on a Trading Participant that is being suspended from market derivatives trading (excluding that through brokerage for clearing of securities, etc.) or the entrustment of brokerage for clearing of securities, etc. on the OSE markets; or
- (3) Other cases where OSE deems the execution of position transfers inappropriate.

**Rule 33-5. Notification of Details of Market Derivatives Transactions Effected by Position Transfer, etc.**

1. Notwithstanding the provisions of Rule 31, when a position transfer is executed pursuant to the provisions of Paragraph 2 of the preceding rule, OSE shall notify the Trading Participant of the details of government bond futures transactions effected by such position transfer, and when a position transfer is not executed pursuant to the provisions of Paragraph 5 of the same rule, OSE shall notify the Trading Participant to that effect.
2. When the Trading Participant receives notification of the details of the market derivatives transaction effected by a position transfer, it shall confirm such details immediately.

**Rule 33-6. Notification of Proprietary or Entrusted**

1. When a position transfer is executed, the Trading Participant shall notify OSE, by the deadline specified by OSE, whether the market derivatives transaction effected by such position transfer is based on a customer's entrustment or for such Trading Participant's proprietary account.
2. A market derivatives transaction for which the notification prescribed in the preceding paragraph is not made shall be deemed by OSE as being based on a customer's entrustment.

## **Chapter 5**

### **Transactions for Error Correction, etc.**

**Rule 34. Transactions for Error Correction, etc.**

1. In the event that a Trading Participant has failed to execute a customer's order for market derivatives contracts on the OSE markets under his/her instructions due to errors, etc. by truly unavoidable reasons, such Trading Participant may, in accordance with the provisions of OSE, with the prior approval of OSE, execute a sale or purchase at a price recognized as reasonable by OSE for its proprietary account as a counterparty to such transaction outside auction trading.
2. The settlement of a sale or purchase in the preceding paragraph shall be made on the day that would be the settlement day if the sale or purchase had been executed in accordance with the

original instructions of the customer.

3. In applying the provisions of the preceding two paragraphs to strategy trading, the terms "sale" and "purchase" in the preceding two paragraphs shall be read as "strategy sale trading" and "strategy purchase trading" respectively, and the term "price" in Paragraph 1 shall be read as "strategy price."

## **Chapter 5-2**

### **Government Bond Futures Transactions Concluded by Exercise**

#### **Rule 34-2. Government Bond Futures Transactions Concluded by Exercise**

When a Trading Participant has given notice of exercise of a government bond futures options contract, it shall be considered that the intention of such exercise has been expressed at such time on the day of the notice as specified by OSE, and a transaction in a government bond futures contract shall be effected at such time.

## **Chapter 6**

### **Settlement by Delivery, Final Settlement, etc.**

#### **Section 1**

#### **Settlement by Delivery for Government Bond Futures Contracts, etc.**

##### **Sub-Section 1**

##### **Settlement by Delivery for Large Contracts**

#### **Rule 34-3. Settlement by Delivery**

For each contract month of large contracts, the final short position (meaning the short position for which no repurchase has been made by the last trading day and settlement (excluding those by repurchase) has not been made on the day following the last trading day; the same shall apply hereinafter) or the final long position (meaning the long position for which no resale has been made by the last trading day and settlement (excluding those by resale) has not been made on the day following the last trading day; the same shall apply hereinafter) shall be settled by delivery (meaning settlement effected by payment/receipt of the amount of the consideration for settlement by delivery of or payment for government bonds; the same shall apply hereinafter) on the date of settlement by delivery for the contract month.

#### **Rule 34-4. Deliverable Bonds**

For settlement by delivery/payment, government bonds enumerated in each of the following items

(hereinafter referred to as "deliverable bonds") shall be treated as deliverable grade.

- (1) For standardized mid-term government bonds, coupon-bearing government bonds (limited to those that have been issued as government bonds and as a part or the whole of their total issue amount through syndicate underwriting for public offering, public offering auction or other methods permitting acquisition by a large unspecified number of persons; the same shall apply hereinafter) with remaining maturity of 4 years or more but less than 5 years and 3 months both on the issue date (meaning the issue date of coupon-bearing government bonds with the same name and of the same issue number, and in addition, in cases where there have been coupon-bearing government bonds issued previously, the issue date of such coupon-bearing government bonds with such same name and of such same issue number that have the earliest issue date; the same shall apply hereinafter) and on the day of settlement by delivery/payment, and also whose issue date falls in a month that is three or more months prior to the month in which the date of settlement by delivery falls.
- (2) For standardized long-term government bonds, coupon-bearing government bonds with remaining maturity of 7 years or more but less than 11 years both on the issue date and the day of settlement by delivery, and also whose issue date falls in a month that is three or more months prior to the month in which the date of settlement by delivery/payment falls.
- (3) For standardized super long-term government bonds, coupon-bearing government bonds with remaining maturity of 19 years and 3 months or more but less than 21 years both on the issue date and the day of settlement by delivery, and also whose issue date falls in a month that is four or more months prior to the month in which the date of settlement by delivery/payment falls.

**Rule 34-5. Computation of Conversion Factors between Standardized Government Bonds and Deliverable Bonds**

The conversion factors between standardized government bonds and deliverable bonds shall be computed in accordance with the attached "Table for Computation of Conversion Factors between Standardized Government Bonds and Deliverable Bonds."

**Rule 34-6. Price for Settlement by Delivery/Payment**

The price used as a basis for computation of the amount of the consideration to be paid/received for settlement by delivery/payment (hereinafter referred to as "delivery settlement price") shall be the settlement price (meaning a price determined by Japan Securities Clearing Corporation (hereinafter referred to as "JSCC") as the settlement price of a government bond futures contract) on the last trading day for the contract month.

**Rule 34-7. Method of Computation of the Amount of Consideration for Settlement by Physical Delivery/Payment**

The amount of the consideration to be paid/received for settlement by delivery/payment shall be the amount obtained by multiplying the product of the delivery settlement price and the conversion factor calculated for each deliverable bond by one hundredth (1/100) of the total amount of the face value of such deliverable bond.

**Rule 34-8. Pro-rata Calculation of Interest**

For the purpose of settlement by delivery/payment, an amount obtained by computing the product of the total amount of the face value of government bonds for each deliverable bond pertaining to the final short position and the coupon rate of such deliverable bond on a pro-rata basis in accordance with the period up to the date of settlement by delivery/payment (hereinafter referred to as "accrued interest") shall be added to the amount of the consideration for settlement by delivery/payment computed pursuant to the provisions of the preceding rule. However, if the date of settlement by delivery/payment falls on a coupon payment date of the deliverable bond, such accrued interest shall not be added to the amount of the consideration for settlement by delivery/payment.

**Sub-Section 2****Final Settlement for Mini Contracts****Rule 34-9. Final Settlement**

For each contract month of mini contracts, if there are positions for which resales or repurchases have not been made by the last trading day, the settlement based on the final settlement price prescribed in the following rule (hereinafter referred to as the "final settlement") shall be conducted on the day following the day on which the final settlement price is determined pursuant to the following rule (hereinafter referred to as the "final settlement date").

**Rule 34-10. Final Settlement Price**

The final settlement price shall be determined on a day after the day on which the last trading day of mini contracts in the relevant contract month ends and the contract price at the start of the trading session pertaining to large contracts in a contract month (see Note below) for the standardized long-term government bond whose last trading day falls in the same month as said relevant contract month; provided, however, that, where the trading session pertaining to said large contracts in a contract month is halted and OSE deems necessary, the final settlement price shall be determined by OSE on a day specified by OSE on a case-by-case basis.

(Note) If there is no contract price at the start of the trading session on the day following the ending day of the last trading day of said large contracts in a contract month, the price specified by OSE.

**Section 1-2**

## Final Settlement of Index Futures Contracts

### Rule 35. Final Settlement

For each contract month of index futures contracts, a Trading Participant shall settle the positions for which resales or repurchases have not been made by the last trading day at the final settlement price prescribed in the following rule on the final settlement day for such contract month.

### Rule 36. Final Settlement Price

1. The final settlement price shall be determined on the day following the day on which the last trading day ends, and shall be a special index (hereinafter referred to as the "special quotation") or value calculated as prescribed in the following relevant item in accordance with the classification of the underlying indices enumerated in each of the following items:

- (1) Nikkei Average, TOPIX, JPX-Nikkei Index 400, TSE Mothers Index, TOPIX Core30, TOPIX Banks Index, and TSE REIT Index

The index calculated based on the contract price of each component issue (or the price specified by OSE for the issues without any contract price on the day following the day on which the last trading day ends) at the opening of the trading session on the financial instruments exchange market established by TSE on the day following the day on which the last trading day ends.

- (2) RNP Index

The stock index calculated based on the contract price of each component issue (or the price specified by OSE for the issues without any contract price on the day following the day on which the last trading day ends) at the opening of the trading session on the primary financial instruments exchange market (meaning the financial instruments exchange market whose stock price is adopted by the index provider to calculate such underlying stock index; the same shall apply in Item 2 of the following paragraph).

- (3) DJIA

The index calculated by S&P Dow Jones Indices LLC as a final settlement price for the contract at the country of origin (meaning the corresponding contract month of index futures contracts based on the DJIA at the foreign financial instruments market established by The Board of Trade of the City of Chicago, Inc. (hereinafter referred to as "CBOT") and whose last trading day belongs to the same month as the contract month of OSE DJIA futures contracts (meaning index futures contracts based on the DJIA traded at the financial instruments market established by OSE).

- (4) Nifty 50

The index calculated by IISL as a final settlement price for the contract at the country of origin (meaning the corresponding contract month of index futures contracts based on the Nifty 50 at the foreign financial instruments market established by NSE and whose last

trading day belongs to the same month as the contract month of OSE India Nifty50 futures contracts (meaning index futures contracts based on the Nifty 50 traded at the financial instruments market established by OSE).

(5) TAIEX

The value calculated by Taiwan Futures Exchange Corporation (hereinafter referred to as “TAIFEX”) as a final settlement price for the contract at the country of origin (meaning the corresponding contract month of index futures contracts based on the TAIEX at the foreign financial instruments market established by TAIEX and whose last trading day belongs to the same month as the contract month of OSE TAIEX futures contracts (meaning index futures contracts based on the TAIEX traded at the financial instruments market established by OSE).

(6) FTSE China 50 Index

The final value of FTSE China 50 Index on the day on which the last trading day ends.

(7) Nikkei 225 VI

The special value calculated over the period prescribed by OSE according to the calculation methodology of the Nikkei 225 VI by using the contract price of index future contracts based on the Nikkei Average and index options contracts pertaining to the Nikkei Average at the opening of the trading session on the day that is 30 days prior to the second Friday of the month immediately following a month with a last trading day.

(8) Dividend indices  
The index specified by OSE as the final price of the index calculated based on dividend (limited to the dividend whose record date for rights has come in the year preceding the year including a day on which the last trading day ends) amounts of each component stock of the underlying index.

2. Notwithstanding the provisions of the preceding paragraph, OSE shall prescribe on a case-by-case basis the final settlement price in cases where either of the following items applies and OSE deems it necessary on the day prescribed by OSE on a case-by-case basis, in accordance with the classification of the underlying indices enumerated in each of the following items:

(1) Nikkei Average, TOPIX, JPX-Nikkei Index 400, TSE Mothers Index, TOPIX Core30, TOPIX Banks Index and TSE REIT Index

In cases where trading in securities in the trading sessions on the financial instruments exchange market established by TSE is suspended (including the cases where trading in securities is suspended pursuant to the provisions of Rule 29, Item 3 or Item 4 of the Business Regulations stipulated by the TSE) on the day following the day on which the last trading day ends.

(2) RNP Index

In cases where trading in stocks on the primary financial instruments exchange market is suspended (including the cases where trading in stocks is suspended pursuant to the provisions of Item 3 or Item 4 of Rule 29 of the Business Regulations (including the

provisions equivalent to such provisions stipulated by the operator of the primary financial instruments exchange market)) on the day following the day on which the last trading day ends.

(3) DJIA, Nifty 50, and TAIEX

In cases where the final settlement price at the country of origin (meaning the country of origin specified in Item 3 of the preceding paragraph for DJIA, Item 4 of the same paragraph for Nifty 50, and, Item 5 of the same paragraph for TAIEX) is not calculated by the end of the day session on the day following the day on which the last trading day ends.

(4) FTSE China 50 Index

In cases where trading in securities on the foreign financial instruments exchange market established by SEHK is suspended or where the index provider fails to calculate or disseminate the FTSE China 50 Index on the day on which the last trading day ends.

(5) Nikkei 225 VI

In cases where trading in index futures contracts based on the Nikkei Average or index options contracts pertaining to the Nikkei Average is suspended pursuant to the provisions of Rule 32 on the day following the day on which the last trading day ends.

3. Notwithstanding the provisions of Paragraph 1, OSE may, in the event that any error has been found in the special quotation on and before the final settlement day, replace the recalculated special quotation as the final settlement price.
4. Even in cases where a Trading Participant suffers losses due to a failure, a delay or an error in calculating or disseminating an underlying index, or due to a change in the settlement price or final settlement price, the Trading Participant may not claim compensation for such losses against OSE or the index provider (including an entity who is entrusted with the calculation of the index from the index provider).

## Section 2

### Exercise of Options

#### Rule 37. Exercise Date, etc.

1. The exercise date of securities options shall be the last trading day of each issue, and the exercise date of index options shall be the day following the day on which the last trading day of each issue ends.
2. The exercise period of government bond futures options shall be the period starting on the initial trading day and ending on the last trading day for each issue.
3. Notwithstanding the provisions of the preceding two paragraphs, OSE may, when it deems necessary, change the exercise date or the exercise period of all or part of issues.
4. Settlement of transactions in underlying securities effected by exercise of securities options shall be made on the 4<sup>th</sup> day (excluding non-business days; the same shall apply hereinafter in the calculation of number of days) after the exercise date; provided, however, that if the exercise date

falls on the day immediately preceding the date of ex-dividend, etc. (limited to such day stipulated by the designated exchange and relating to regular transactions; the same shall apply hereinafter) or the date on which trading starts for stock (including investment trust beneficiary certificate and investment security; the same shall apply hereinafter) after the reverse stock split (limited to such day prescribed by the designated exchange and relating to regular transactions; the same shall apply hereinafter), settlement of transactions in underlying securities effected by exercise shall be made on the 3<sup>rd</sup> day after said exercise date.

5. When an index option is exercised, settlement shall be made on the day following the exercise date based on the option settlement price (meaning the option settlement price prescribed in Rule 40).

### **Rule 38. Suspension of Exercise**

In the event that trading in options contracts is suspended or in cases where OSE deems that it is inappropriate to allow exercise of options for the purpose of administration of transactions, OSE may suspend such exercise for all or part of issues.

### **Rule 39. Expiration of Options**

1. A securities option or an index option shall expire at the time prescribed by OSE if no notification of exercise of such option has been given on the exercise date.
2. A government bond futures option shall expire at the time prescribed by OSE if no notice of exercise of such option has been given on the expiration date of the exercise period (meaning the expiration date of the exercise period prescribed in Rule 37, Paragraph 2; the same shall apply hereinafter).

### **Rule 40. Option Settlement Price**

1. OSE shall determine option settlement prices for each index options for contracts after the close of the day session on the exercise date.
2. The option settlement price in the preceding paragraph shall be a special index (hereinafter referred to as "special quotation") calculated based on the contract price of each component issue (or the price specified by OSE for the issues without any contract price on the day following the day on which the last trading day ends) of the underlying index at the opening of the trading session on the exercise date on the financial instruments exchange market established by TSE.
3. Notwithstanding the provisions of the preceding paragraph, the option settlement price in cases where the trading in stocks in the trading sessions on the financial instruments exchange market established by the TSE is suspended (including the cases where trading in stocks is suspended pursuant to the provisions of Rule 29, Item 3 or Item 4 of the Business Regulations stipulated by TSE) on the day following the day on which the last trading day ends, shall be determined by OSE on a case-by-case basis until the day determined by OSE on a case-by-case.

4. Notwithstanding the provisions of Paragraph 2, OSE may, in the event that any error has been found in the special quotation on and before the day immediately preceding the settlement date pertaining to exercise, replace the recalculated special quotation as the options settlement price.
5. Even in cases where a Trading Participant suffers losses due to a failure, a delay or an error in calculating or disseminating an underlying index, or due to a change in the option settlement price pursuant to the provisions of the preceding paragraph, the Trading Participant may not claim compensation for such losses against OSE or the index provider (including an entity who is entrusted with the calculation of the index from the index provider).

#### **Rule 41. Loan Trading Effected by Exercise**

1. A Trading Participant (limited to a Futures, etc. Trading Participant that is a General Trading Participant of TSE; the same shall apply in the following paragraph) may execute loan trading for the purpose of completing the settlement (excluding, in the case of exercise effecting transactions by the number of underlying securities prescribed in the first sentence of Rule 12, Paragraph 2, payment/receipt of money prescribed in Rule 17, Paragraph 1, Item 2 b. and Item 3 of the Clearing and Settlement Regulations or Rule 55, Paragraph 1, Item 1 b. and Item 2 of the Business Rules specified by JSCC) pertaining to transactions in the underlying security (limited to such transactions in standardized margin trading or of proprietary sale or purchase on margin) effected by exercise of securities options.
2. A Trading Participant shall, when conducted loan trading pursuant to the preceding paragraph, complete the settlement of the margin sales or margin purchases by the third day after the corresponding date in the sixth month (the last day of the month if there is no such corresponding date; to be moved up in order if the corresponding date falls on a non-business day) of the day following the exercise date (the exercise date if the exercise date falls on the day before the date of ex-dividend, etc. (limited to such date prescribed by TSE and relating to regular transactions), the date on which trading starts for stock after the reverse stock split (limited to such day prescribed by the designated exchange and relating to regular transactions) or the day equivalent thereto).
3. The provisions of the Margin/Loan Trading Regulations specified by TSE and other rules relating to margin trading and loan trading shall apply mutatis mutandis to the standardized margin trading in Item 1 and loan trading in each of the preceding paragraphs and administration of these trading.

## **Chapter 7**

### **Give-up**

#### **Rule 42. Give-up**

1. A Trading Participant may conduct the give-up (meaning an action to bring about the effect prescribed in Paragraph 3 when effected pursuant to the provisions of the following paragraph; the same shall apply hereinafter) with respect to transactions in market derivatives contracts (including transactions for error correction, etc. prescribed in Rule 34 and excluding transactions in government bond futures contracts effected by exercise in government bond futures options contracts; the same shall apply hereinafter in this chapter) in accordance with the provisions of this chapter.
2. Give-up shall be effected when an Order Execution Trading Participant (meaning a Trading Participant making a give-up notification provided in the following paragraph; the same shall apply hereinafter) makes a give-up notification and OSE receives a take-up notification from a Clearing Execution Trading Participant (meaning a Trading Participant making a take-up notification provided in Rule 44, Paragraph 1, Item 1; the same shall apply hereinafter).
3. In cases where give-up is effected, a sale or purchase of market derivatives contracts pertaining to such give-up notification shall be extinguished toward the future and, at the same time, a new sale or purchase of market derivatives contracts with the same detail as the extinguished sale or purchase of market derivatives contracts shall be created under the name of such Clearing Execution Trading Participant; provided, however, that if such Clearing Execution Trading Participant is a Non-Clearing Participant (meaning the Government Bond Futures, etc. Non-Clearing Participant prescribed in Rule 24, Paragraph 2 of the Trading Participant Regulations or the Index Futures, etc. Non-Clearing Participant prescribed in Paragraph 3 of the same rule; the same shall apply hereinafter), a new sale or purchase of market derivatives contracts with the same detail as the extinguished sale or purchase of market derivatives contract shall be created in the name of its Designated Clearing Participant (meaning the Government Bond Futures, etc. Agency Clearing Participant (see Note 1 below) or the Index Futures, etc. Agency Clearing Participant (see Note 2 below) designated by such Non-Clearing Participant pursuant to the provisions of Rule 27, Paragraph 1 of the Trading Participant Regulations) for the account of such Clearing Execution Trading Participant.

(Note 1) The Government Bond Futures, etc. Agency Clearing Participant means an entity that holds the Agency Clearing Qualification (meaning the Agency Clearing Qualification defined in the Business Rules of JSCC; the same shall apply hereinafter) pertaining to a Government Bond Futures, etc. Clearing Qualification (meaning the Government Bond Futures, etc. Clearing Qualification defined in the Business Rules of JSCC).

(Note 2) The Index Futures, etc. Agency Clearing Participant means an entity that holds the Agency Clearing Qualification pertaining to an Index Futures, etc. Clearing Qualification (meaning the Index Futures, etc. Clearing Qualification defined in the Business Rules of JSCC).

#### **Rule 43. Give-up Notification**

1. When a Trading Participant intends to conduct the give-up with respect to the transactions in market derivatives contracts, it shall notify OSE, with a designation of a Clearing Execution Trading Participant, no later than the time prescribed by OSE, through the system designated by OSE, of the details of the transactions in market derivatives contracts to be given up and the matters necessary for the Designated Clearing Execution Trading Participant (meaning the Clearing Execution Trading Participant designated by the Order Execution Trading Participant pursuant to the provisions of this paragraph; the same shall apply hereinafter) to confirm which customer conducts the transactions in market derivatives contracts pertaining to such give-up; provided, however, that a Trading Participant may not make such notifications for the transactions in market derivatives contracts created by give-up.
2. When OSE receives the notification in the preceding paragraph (hereinafter referred to as a "give-up notification"), OSE shall immediately notify the Designated Clearing Execution Trading Participant of the details thereof through the system designated by OSE.

**Rule 44. Take-up Notification, etc.**

1. A Designated Clearing Execution Trading Participant that received the notification pursuant to the provisions of Paragraph 2 of the preceding rule shall make either of the notifications enumerated in the following items to OSE no later than the time prescribed by OSE through the system designated by OSE.
  - (1) In the case where it accepts the settlement of the transactions in market derivatives contracts pertaining to the notification, a notification to that effect (hereinafter referred to as a "take-up notification").
  - (2) In the case where it does not accept the settlement of the transactions in market derivatives contracts pertaining to the notification, a notification to that effect.
2. If neither notification in each item of the preceding paragraph is made by the time prescribed in the preceding paragraph, it shall be deemed that OSE has received the notification in the preceding Item 2 from such Clearing Execution Trading Participant.
3. When OSE receives the notification pursuant to the provisions of Paragraph 1 (including the cases where the notification in Item 2 of Paragraph 1 is deemed to have been made pursuant to the provisions of the preceding paragraph), OSE shall immediately notify the Order Execution Trading Participant that made the relevant give-up notification of the details thereof through the system designated by OSE.

**Rule 45. Retention of Materials**

An Order Execution Trading Participant and a Clearing Execution Trading Participant shall obtain materials (including electromagnetic records) on which the details of give-up that is effected on the current day are recorded from the system designated by OSE, and retain such materials for 10 years thereafter.

**Rule 46 . Emergency Measures in case of Malfunction in Operation of System pertaining to Give-up, etc.**

1. In the event that any malfunction in the operation of the system to conduct give-up has occurred, and if OSE deems it necessary, a give-up notifications or take-up notification may be made by means other than those prescribed in Rule 43 or Rule 44.
2. The means other than those prescribed in Rule 43 or Rule 44 prescribed in the preceding paragraph shall be stipulated by OSE on a case-by-case basis.

**Chapter 8  
Restrictions on Transactions**

**Rule 47. Regulatory Measures concerning Market Derivatives Trading and Acceptance thereof**

In the event that OSE deems that there is, or is likely to be, abnormality in the situation of market derivatives trading on the OSE markets, OSE may take necessary measures concerning market derivatives trading and acceptance thereof on the OSE markets out of the regulatory measures stipulated in the regulations of OSE.

**Chapter 9  
Miscellaneous Provisions**

**Rule 48. Notification and Publication to Trading Participants, etc.**

The notification and publication of total trading volume, etc. each day on the OSE markets pursuant to Article 130 of the Act shall be made through the trading systems, etc.; provided, however, that in the event that any malfunction in the operation of the trading systems has occurred or in any other cases where OSE deems it difficult, such notification and publication shall be made in writing.

**Rule 49 . Reporting to the Prime Minister**

Reporting to the Prime Minister of the total trading volume, etc. each day on the OSE markets pursuant to Article 131 of the Act shall be made through an electronic medium; provided, however, that in the event that any malfunction in the operation of the electronic information media has occurred or in any other cases where OSE deems it difficult, such reporting shall be made in writing.

**Rule 50 . Reporting on the Market Condition**

In cases where it is necessary to continuously report the market condition of OSE to the general

public or news media, OSE shall conduct it and no Trading Participant shall carry out an act that is similar to this.

**Rule 51. Method of Market Derivatives Trading on the OSE Markets**

1. A Trading Participant must conduct market derivatives trading on the OSE markets through a Trading Participant Terminal Device, etc. as deemed appropriate by OSE.
2. A Trading Participant must comply with system-interface specifications and other matters specified by OSE with regard to connections between Trading Participant Terminal Devices and the trading systems.
3. A Trading Participant shall report matters with respect to Trading Participant Terminal Devices to OSE in accordance with the provisions specified by OSE as well as cooperate with OSE to ensure and maintain the stability of the trading system.
4. A Trading Participant must appoint a Person Responsible for Market Derivatives Trading (meaning a person who supervises the operation of market derivatives trading on the OSE markets and deals with matters related thereto; the same shall apply hereinafter in this rule) from among the officers in charge of operations for market derivatives trading on the OSE markets or employees who are in a post as a person responsible for that, and shall notify OSE of such person in advance. However, a Government Bond Futures, etc. Trading Participant shall not be required to appoint or notify OSE of the responsible person specified in Item 2.
  - (1) Government bond futures contracts and government bond futures options contracts  
Person Responsible for Government Bond Futures, etc. Trading
  - (2) Index futures contracts, securities options contracts, and index options contracts  
Person Responsible for Index Futures, etc. Trading
5. Notwithstanding the provisions of the preceding paragraph, a Futures, etc. Trading Participant that has obtained approval pursuant to Rule 6 of the Trading Participant Regulations shall not be required to appoint and notify OSE of the person defined in Item 1 of the preceding paragraph.
6. Notwithstanding the provisions of Paragraph 4, if OSE determines an additional responsible person is required to handle the specific part of the work of the Person Responsible for Government Bond Futures, etc. Trading or the Person Responsible for Index Futures, etc. Trading, a Trading Participant shall appoint a person responsible for such specific part of the work on behalf of the Person Responsible for Government Bond Futures, etc. Trading or the Person Responsible for Index Futures, etc. Trading, and shall notify OSE of such person in advance.

**Rule 52. Publication of Orders with Errors**

In the event that an order with an error is placed and OSE deems it necessary for the purpose of administration of transactions, OSE may publicize the issue (contract month for futures contracts) pertaining to such order, the name of the Trading Participant that placed such order and other matters prescribed by OSE.

**Rule 53. Delisting of Securities Options, etc.**

1. OSE shall, if any of the following items applies, delist the securities options stipulated in the relevant item on the day specified by OSE.
  - (1) Where the exchanges listing an underlying security delist the underlying security and such underlying security is no longer listed on any domestic financial instruments exchange.
  - (2) Where the following (a) through (c) apply to transactions in securities options contracts pertaining to the same underlying security.
    - a. Where no transaction has been effected on OSE for a period of one year up to the day stipulated by OSE on a case-by-case basis as the base date for determining the applicability of delisting such securities options (hereinafter referred to as the y OSE in al in this item) (excluding the securities options for which one year has not passed since the listing as of such base date).
    - b. Where OSE deems that it is not necessary to continue listing such securities options on such base date.
    - c. Where no transaction is effected on OSE for a period of one month from the day following such base date.
2. In the cases in the preceding paragraph, the contract months of securities options contracts for such underlying securities and the number thereof shall be, notwithstanding the provisions of Rule 10, as stipulated separately by OSE.

**Rule 53-2. Reporting of Details of Positions**

1. In the event that the difference between the amount of its short positions and the amount of its long positions in the nearest contract month for large contracts (including a transaction for error correction, etc. specified in Rule 34) for its own account or the difference between the amount of its short positions and the amount of its long positions in the nearest contract month for the account of its customer has, on a trading day specified by OSE, become equal to or greater than the amount subject to reporting as specified by OSE for each issue, the Trading Participant shall report the details thereof to OSE pursuant to the provisions prescribed by OSE.
2. In the event that the amount prescribed in each of the following items in government bond futures options, whose underlying government bond futures contract month is the nearest contract month of the government bond futures contract (see Note below), for its own account or the amount prescribed in each of the following items in the nearest contract month for the account of its customer has, on a trading day determined by OSE, become equal to or greater than the amount subject to reporting as specified by OSE for each issue designated as the subjects of the transaction contract in government bond futures contract effected by exercise, the Trading Participant shall report the details thereof to OSE pursuant to the provisions prescribed by OSE.

(Note) Such government bond futures options contract includes a transaction for error

correction, etc. specified in Rule 34.

- (1) The difference between the short position and the long position in government bond futures put options;
- (2) The difference between the short position and the long position in government bond futures call options; or
- (3) The sum of the difference enumerated in Item 1 and the difference enumerated in Item 2, if, with respect to either one of the differences prescribed in the preceding two items, the short position exceeds the long position, while, with respect to the other difference, the long position exceeds the short position.

**Rule 54. Restrictions on Transactions for Proprietary Account and Reporting of Large Position**

1. In cases where a Trading Participant (limited to a Futures, etc. Trading Participant; the same shall apply in this rule) conducts transactions in securities options contracts (including transactions for error correction specified in Rule 34; the same shall apply hereinafter in this rule) pertaining to the same underlying securities, the Trading Participant may not conduct a new sale or new purchase or a resale or repurchase that will cause the amount enumerated in the following items for its own account to exceed the upper limit prescribed in Paragraph 3. In such case, if the securities option on such underlying security is the subject of a securities options contract on a financial instruments exchange market established by another domestic financial instruments exchange, the amount of position pertaining to such securities options contracts shall be included in the amount enumerated in each of the following items.
  - (1) The difference in the amount between the short position and the long position in securities put options;
  - (2) The difference in the amount between the short position and the long position in securities call options; or
  - (3) The sum of the difference specified in Item 1 and the difference specified in the preceding item, if, with respect to either one of the differences enumerated in the preceding two items, the quantity of the short position exceeds that of the long position while, with respect to the other items, the quantity of the long position exceeds that of the short position.
2. Notwithstanding the provisions of each item of the preceding paragraph, in the cases enumerated in each of the following items, the amount specified in the relevant item shall be deducted from the amount specified in each of the items of the preceding paragraph.
  - (1) All or part of the amount in each of the items of the preceding paragraph if it is judged by OSE that the potential risk with respect to such amount arising from changes in the price of such underlying security is eliminated or reduced under the circumstances in which the Trading Participant holds such underlying security or in other circumstances; and
  - (2) The amount of positions pertaining to a sale or purchase transaction in the securities options

- contract pertaining to a securities option on such underlying security, if execution of such sale or purchase transaction was deemed necessary in order to execute a customer order
3. The upper limit prescribed in Paragraph 1 shall be trading units (rounding down the figures less than 100 units) constituting the number of securities equivalent to 1% (0.7% for underlying securities whose total annual trading volume on the financial instruments exchange markets established by the exchange listing the underlying security for a period of one year ending on March 31 (hereinafter in this paragraph and Paragraph 6 referred to as the "base date") (or an amount specified by OSE on a case-by-case basis in consideration of the recent trading volume of the underlying security if the listing date of the underlying security is later than the corresponding date of the base date in the previous year) is less than 10% of the number of listed securities) of the number of listed shares of the underlying security as of the base date, and such upper limit shall be, in principle, valid for a period of one year starting on the base date or a later date specified from time to time by OSE.
  4. Notwithstanding the provisions of the preceding paragraph, in cases where OSE deems it necessary in view of the circumstances in which there was a change in the position pursuant to the Business Rules of JSCC, the current status of trading in the underlying security, etc., OSE may determine the upper limit on a case-by-case basis in consideration of the number of listed shares of the underlying security, trading units, and other matters.
  5. In cases where the amount enumerated in each item of Paragraph 1 (the amount calculated by deducting the amount specified in Paragraph 2, Item 1, if the conditions specified therein are met; the same shall apply hereinafter in this paragraph.) for a Trading Participant's own account or such amount based on orders accepted from a customer reached or exceeded the amount specified by OSE as the amount subject to reporting, the Trading Participant shall report the details of the amount to OSE in accordance with the provisions specified by OSE.
  6. The number of listed shares specified in Paragraph 3 shall be, if the listing date of the underlying security is later than the base date, the number of listed shares as of the date specified by OSE on a case-by-case basis, and, in the case where there is a change in the position pursuant to the Business Rules of JSCC due to the stock split or gratis allotment of shares and no additional securities are issued as of the base date, the number of such additional securities shall be added.

#### **Rule 55. Delivery of Reports Concerning Transactions**

1. A Trading Participant shall send every month to its customer who has an unsettled market derivatives contract (including a transaction for error correction, etc. prescribed in Rule 34) a report stating the matters enumerated in the following items:
  - (1) Matters specified in the relevant category in accordance with the classification of the market derivatives contracts in the following (a) through (e)
    - a. Government bond futures contracts
      - (a) Issue

- (b) Contract month
  - b. Index futures contracts
    - (a) Underlying index
    - (b) Large contract or mini contract for index futures contracts on Nikkei Average and TOPIX
    - (c) Contract month
  - c. Securities options contracts
    - (a) Underlying security
    - (b) Quantity of an underlying security for one trading unit of the securities option
    - (c) Securities put option or securities call option
    - (d) Contract month
    - (e) Exercise price
  - d. Government bond futures options contracts
    - (a) Underlying issue of the government bond futures contract effected by exercise
    - (b) Government bond futures put option or government bond futures call option
    - (c) Contract month
    - (d) Exercise price
  - e. Index options contracts
    - (a) Underlying index
    - (b) Index put option or index call option
    - (c) Contract month
    - (d) Exercise price
- (2) Sale or purchase
- (3) Amount of contracts (face value of large contracts with respect to government bond futures)
- (4) Contract price
- (5) Trade execution date
- (6) Matters specified in the relevant category in accordance with the classification of the market derivatives contracts in the following (a) through (d)
- a. Government bond futures contracts and index futures contracts
    - Day on which the last trading day of the relevant contract month ends
  - b. Securities options contracts
    - Last trading day and exercise date of the relevant contract month ends
  - c. Government bond futures options contracts
    - Day on which the last trading day ends and expiration date of the exercise period of the relevant contract month
  - d. Index options contracts
    - Day on which the last trading day ends and exercise date of the relevant contract month
2. In the case where a customer is a financial instruments business operator that is a member of the

Japan Securities Dealers Association or in the case where the delivery of the report on the outstanding balance of transactions is not required pursuant to the provisions of Article 45 of the Act or Article 111, Item 1 of the Cabinet Office Ordinance on Financial Instruments Business, etc. (Cabinet Office Ordinance No. 52 of 2007), the delivery of the reports prescribed in the preceding paragraph shall not be required.

3. In the case where a Trading Participant has presented to a customer a type and details of electromagnetic means (meaning the means using electronic information processing facilities or any other communications technologies that are similar to the means stipulated in Article 56 (excluding Paragraph 1, Item 1 (d), Paragraph 2, Item 3 (b) and Item 4, and the term "the transactions listed ... were carried out last" in Item 3 of the same paragraph shall be read as "were recorded") of the Cabinet Office Ordinance on Financial Instruments Business, etc.; the same shall apply hereinafter in this paragraph and the following paragraph) to employ and obtained the customer's approval in writing or through electromagnetic means, the Trading Participant may, instead of sending a report pursuant to the provisions of Paragraph 1, provide the matters to be stated in such report through the electromagnetic means. In such cases, it shall be deemed that Trading Participant has sent the report.
4. A Trading Participant that has obtained the approval pursuant to the provisions of the preceding paragraph may not provide the matters to be stated in the report through the electromagnetic means, if the customer notifies the Trading Participant in writing or through the electromagnetic means that he/she will not accept the report through electromagnetic means; provided, however, that this shall not apply if the customer gives another approval in accordance with the provisions of the preceding paragraph.
5. In cases where the average value of unit prices of transactions effected for the same issue on the same day may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., such average value may be used for the contract price referred to in Paragraph 1, Item 4.
6. The trade execution date enumerated in Paragraph 1, Item 5 may be the day on which the trading day on which the transaction is executed ends. In such cases, the Trading Participant shall give an explanation to that effect to its customer.

**Rule 56. Assignment of Exercise and Notification thereof to Customer**

1. In cases where a Trading Participant receives notice, pursuant to the Business Rules of JSCC, concerning the assignment of exercise with respect to a position based on the order entrusted from a customer, the Trading Participant shall assign the exercise to the customer immediately in accordance with a method determined in advance.
2. In the case of the assignment specified in the preceding paragraph, the Trading Participant shall notify the customer promptly of the issue and the amount pertaining to the assignment.

**Rule 57. Purchase for a Trading Participant's Own Account during Takeover Bid Period**

The purchase transactions, etc., permitted by regulations specified by each financial instruments exchange for the purpose of smooth trading of securities, as prescribed in Article 12, Item 2 and Article 14-3-7, Item 5 of the Order for Enforcement of the Financial Instruments and Exchange Act (Cabinet Order No. 321, 1965), as applicable to the OSE market, shall be purchase transactions in securities call options enumerated in each of the following items:

- (1) Purchase transactions for error correction, etc. effected pursuant to the provisions of Rule 34;  
and
- (2) Purchase transactions, etc., arising from an error in executing a customer's order if it is deemed by OSE that such transaction occurred in truly unavoidable circumstances.

**Rule 58. Emergency Measures in case of Malfunction in Operation of Trading Systems**

1. In the event that any malfunction in the operation of the trading systems has occurred and OSE deems it necessary, market derivatives trading may be temporarily conducted by other means than the trading systems.
2. A Trading Participant that has difficulty in making bids and offers due to a failure in the trading systems or other unavoidable circumstances (hereinafter referred to as "Trading Participant(s) in the system malfunction") may, with the prior approval of another Trading Participant and OSE, make the bids and offers, etc. through such other Trading Participant (hereinafter referred to as "Acting Trading Participant(s)"). In this case, when a transaction in market derivatives contracts is effected with such bids and offers, etc., the Trading Participant(s) in the system malfunction and the Acting Trading Participant(s) shall notify OSE of the details of the transaction in accordance with the provisions specified by OSE.
3. Matters necessary for the trading prescribed in the preceding two paragraphs shall be stipulated by OSE on a case-by-case basis.

**Rule 58-2. Matters to Be Reported by Persons Conducting Low Latency Trading**

OSE may request persons conducting low latency trading to report matters pursuant to the provisions specified by OSE.

**Rule 59. Decision of Necessary Matters Concerning Market Operation**

In addition to the matters prescribed in these Regulations, OSE may prescribe necessary treatment in other regulations, in cases where it is necessary for the operation of the OSE markets.

**Rule 60. Application to Brokerage for Clearing of Securities, etc.**

1. The provisions of Chapter 2 through Chapter 9 (excluding Chapter 6, Chapter 7 and Rule 57) shall apply to the brokerage for clearing of securities, etc. by regarding a Trading Participant that

entrusts the brokerage for clearing of securities, etc. as an entity that effects such transactions in the market derivatives contracts.

2. The provisions of Chapter 6, Section 2 shall apply to the brokerage for clearing of securities, etc. pertaining to loan trading by regarding a Trading Participant that entrusts the brokerage for clearing of securities, etc. as an entity that effects such loan trading.

Attachment

**Table for Computation of Conversion Factors between Standardized Government Bonds and Deliverable Bonds**

$$\text{Conversion factor} = \frac{\frac{\text{Yearly interest of deliverable bond}}{x} \times \left\{ \left( 1 + \frac{x}{2} \right)^{\left( \text{No. of interest payments after date of settlement by delivery/payment for deliverable bond} \right)} - 1 \right\} + 100}{\left( 1 + \frac{x}{2} \right)^{\left( \text{Remaining maturity as of date of settlement by delivery/payment} \right)} \times 100} \times \frac{\text{Yearly interest of deliverable bond} \times \left( 6 - \text{Period from date of settlement by delivery/payment for deliverable bond to next interest payment date} \right)}{1200}$$

(Notes)

- "x" in this table shall be defined as follows for each type of standardized government bond.
  - Standardized medium-term government bonds: 0.03
  - Standardized long-term government bonds: 0.06
  - Standardized super long-term government bonds: 0.03
- The remaining maturity as of the date of settlement by delivery/payment for a deliverable bond and a period between the date of settlement by delivery/payment for a deliverable bond and the next interest payment date shall be counted in units of months.
- Conversion factors shall be calculated to the sixth decimal place, and decimals in the seventh or lower places shall be discarded.
- Figures obtained in the process of calculation shall be calculated to the tenth decimal place, and decimals in the eleventh or lower places shall be discarded.
- In the event that a government bond is delivered/received for settlement of delivery/payment before the first interest payment of such bond, when computing conversion factors for deliverable bonds with a remaining maturity exceeding ten (10) years in the case of a long-term standardized government bond, and conversion factors for deliverable bonds with a remaining maturity exceeding twenty (20) years in the case of a super long-term standardized government bond, the following phrases in the table shall be as follows:
  - The term "No. of interest payments after date of settlement by delivery/payment for a deliverable bond" shall be "No. of interest payments after date of settlement by delivery/payment for a deliverable bond +1"; and
  - The term "Period from date of settlement by delivery/payment for deliverable bond to next interest payment date" shall be "(Period from date of settlement by delivery/payment for deliverable bond to next interest payment date - 6)".

## **Trading Participant Regulations**

(As of April 1, 2018)

Osaka Exchange, Inc.

### **Chapter 1**

#### **General Provisions**

##### **Rule 1. Purpose**

1. These Regulations set out matters concerning obligations of Trading Participants, granting trading qualification, Guarantee Funds and mediation and other necessary matters concerning Trading Participants pursuant to Rule 2, Paragraph 1 of the Business Regulations.
2. Any amendments to these Regulations shall be made by resolution of the Board of Directors; provided, however, that this shall not apply in cases of minor amendments.

### **Chapter 2**

#### **Trading Participants**

##### **Section 1**

#### **General Rules**

##### **Rule 2. Types of Trading Participants**

1. There shall be three types of Trading Participants on OSE: Futures, etc. Trading Participant, Government Bond Futures, etc. Trading Participant and FX Trading Participant.
2. A Futures, etc. Trading Participant shall have trading qualification to conduct the transactions (excluding transactions executed based on brokerage for clearing of securities, etc.) referred to in the following items on the OSE markets (hereinafter referred to as "Futures, etc. Trading Qualification"):
  - (1) Government bond futures transactions (meaning transactions referred to in Article 2, Paragraph 21, Item 1 of the Financial Instruments and Exchange Act (Act No. 25 of 1948; hereinafter referred to as "the Act") pertaining to standardized government bonds or transactions referred to in Item 2 of the same paragraph pertaining to prices of such standardized bonds; the same shall apply hereinafter)
  - (2) Index futures transactions (meaning transactions referred to in Article 2, Paragraph 21, Item 2 of the Act) pertaining to indices; the same shall apply hereinafter)
  - (3) Securities options transactions (meaning transactions referred to in Article 2, Paragraph 21, Item 3 of the Act that pertain to securities transactions; the same shall apply hereinafter)

- (4) Government bond futures options transactions (meaning transactions listed in Article 2, Paragraph 21, Item 3 of the Act that pertain to government bond futures transactions; the same shall apply hereinafter)
  - (5) Index options transactions (meaning, of those referred to in Article 2, Paragraph 21, Item 3 of the Act, transactions prescribed in the Business Regulations as those equivalent to transactions specified in Item 2 of the same paragraph (limited to transactions pertaining to indices); the same shall apply hereinafter)
3. A Government Bond Futures, etc. Trading Participant shall have trading qualification to conduct transactions (excluding transactions executed based on brokerage for clearing of securities, etc.) referred to in Item 1 and Item 4 of the preceding paragraph on the OSE markets (hereinafter referred to as "Government Bond Futures, etc. Trading Qualification").
  4. A Foreign Exchange Margin Trading Participant (hereinafter referred to as an "FX Trading Participant") shall have trading qualification to conduct exchange foreign exchange margin transactions (meaning transactions referred to in Article 2, Paragraph 21, Item 2 of the Act that pertains to currency value (hereinafter referred to as "Exchange FX Transactions") However, excluding transactions executed based on brokerage for clearing of securities, etc.) on the OSE markets (hereinafter referred to as "FX Trading Qualification").
  5. A Trading Participant shall not be allowed to have Futures, etc. Trading Qualification and Government Bond Futures, etc. Trading Qualification at the same time.

### **Rule 3. Forms of Sales and Purchase of Market Transactions of Derivatives on the OSE Markets**

1. A Trading Participant shall conduct, in its own name, market transactions of derivatives (limited to those pertaining to the type of trading qualification that the Trading Participant holds; the same shall apply hereinafter in the following paragraph) on the OSE markets pertaining to the clearing qualification (meaning clearing qualification prescribed in the Business Rules of Japan Securities Clearing Corporation (hereinafter referred to as "JSCC")); the same shall apply hereinafter) that it holds.
2. A Trading Participant shall, for market transactions of derivatives on the OSE markets pertaining to the type of clearing qualification that the Trading Participant does not hold, entrust a Designated Clearing Participant (meaning a Designated Clearing Participant prescribed in Rule 27, Paragraph 1; the same shall apply in the following paragraph) with brokerage for clearing of securities, etc.
3. Notwithstanding the provisions of the preceding two paragraphs, a Remote Trading Participant (meaning an Authorized Transaction-at-Exchange Operator that holds trading qualification; the same shall apply hereinafter) shall, for market transactions of derivatives on the OSE markets (limited to those pertaining to the type of trading qualification that the Remote Trading Participant holds), entrust a Designated Clearing Participant with brokerage for clearing of securities, etc.

### **Rule 4. Ensuring Fair Price Formation and Smooth Circulation**

1. A Trading Participant shall make efforts to ensure fair price formation and smooth circulation on the OSE markets so that the function of OSE as a financial instruments exchange market will be maintained and enhanced.
2. A Trading Participant must treat market transactions of derivatives on the OSE markets with due importance.

**Rule 5. Cooperative or Control Relationship between Trading Participants and Officers or Other Parties**

1. If OSE deems that cooperative or control relationship between a Trading Participant and its officers or other parties is inappropriate in light of the objectives of OSE or the operation of the OSE markets, OSE may, after holding a hearing with said Trading Participant and demand changes thereto, indicating the reason therefor; provided, however, that if said Trading Participant has submitted a written statement, the submission thereof may substitute for a hearing.
2. In the event that a Trading Participant fails to respond to a hearing as referred to in the preceding paragraph in spite of having no legitimate reason, OSE may demand for changes as referred to in the same paragraph without holding a hearing.
3. If the Trading Participant considers a demand for changes as referred to in Paragraph 1 to be unjust, the Trading Participant may file an objection thereto, upon giving reasons, with OSE in writing within 10 days from the day on which it received notification of the demand for changes.
4. If, in the event that it receives an objection as referred to in the preceding paragraph, OSE considers that it would be appropriate to change or cancel the demand for change referred to in Paragraph 1, OSE shall change or cancel the demand referred to in Paragraph 1 immediately.

**Rule 6. Trading Participant Representative**

1. A Trading Participant must, as prescribed by OSE, notify in advance OSE of one person as its Trading Participant Representative from among its representative directors or representative executive officers, who is appropriate for representing said Trading Participant at OSE (where the Trading Participant is a foreign corporation other than a Remote Trading Participant, a person who is representative in Japan and holds a position equivalent to or higher than director or executive officer, or where the Trading Participant is a Remote Trading Participant, a person who holds a position equivalent to or higher than director or executive officer).
2. Only the Trading Participant Representative shall represent the Trading Participant in the relationship between said Trading Participant and OSE; provided, however, that normal daily business to the extent which is determined in advance may be carried out by an agent for which notification has been given to OSE.

**Rule 7. Person Responsible for Compliance with Laws and Regulations**

A Remote Trading Participant shall, as specified by OSE, apply to OSE for appointment of one person from among persons holding a position equivalent to or higher than director or executive officer as a Person Responsible for Compliance with Laws and Regulations (meaning a person who enforces board members, executives officers, and employees of said Remote Trading Participant to comply with the Act and other laws and regulations (hereinafter referred to as the "laws and regulations"), dispositions by the administrative authorities under the laws and regulations, and the Articles of Incorporation, Business Regulations, Brokerage Agreement Standards, and any other regulations of OSE, and just and equitable principles of trade (hereinafter referred to as "compliance with the laws and regulations, etc.") and endeavors to establish an internal management system, as well as makes proper contact and coordination with OSE, with respect to compliance with the laws and regulations, etc.) and obtain the approval of OSE.

**Rule 8. Liaison Office, etc.**

A Trading Participant shall notify OSE of one office from among its head office, other business offices or principal administrative offices (where the Trading Participant is a foreign corporation, the principal business or administrative offices in Japan) that are conveniently located for liaising with OSE to act as the liaison office to receive notifications from OSE. However, a Remote Trading Participant which has no office in Japan shall, instead, notify OSE of the name and address of the representative in Japan as prescribed in Article 60-2, Paragraph 1 of the Act.

**Section 2**

**Obligations, etc. of Trading Participants**

**Rule 9. Trading Participant Fees**

1. A Trading Participant must pay Trading Participant Fees to OSE in accordance with the provisions stipulated by OSE.
2. OSE may pay an incentive to Trading Participants based on the rules stipulated by OSE for the purposes of ensuring smooth circulation and improve liquidity on the OSE markets.

Rule 10. Deleted.

**Rule 11. Guarantee Fund**

1. A Trading Participant must deposit 3 million yen with OSE as a Guarantee Fund in accordance with the provisions specified by OSE.
2. A Guarantee Fund may be deposited in securities in lieu of cash in accordance with the provisions specified by OSE; provided, however, that this shall not apply to Remote Trading Participants.
3. Notwithstanding the provisions of the preceding two paragraphs, if OSE deems it especially necessary in the light of the objective of depositing a Guarantee Fund, it may, by resolution of the Board of Directors,

take the actions referred to in the following items against a Trading Participant to the degree necessary:

- (1) Restrictions on the issues designated by OSE as eligible to be deposited in lieu of cash for a Guarantee Fund pursuant to the provisions of the preceding paragraph;
  - (2) Lowering the ratio that should be multiplied by market value in the calculation of substitution value where a Guarantee Fund is substituted with securities pursuant to the provisions of the preceding paragraph; and/or
  - (3) Increase in the amount of Guarantee Funds.
4. OSE shall hold Guarantee Funds separately from other assets and manage them in the ways referred to in the following items:
- (1) Purchase of government bonds or municipal bonds;
  - (2) Bank deposits; and/or
  - (3) Monetary trusts with a bank engaging in trust business.

**Rule 11-2. Deposit of Trading Participant Security Money**

1. A Trading Participant must deposit with OSE Trading Participant Security Money in accordance with the provisions of the rules prescribed by OSE, in order to ensure fulfillment of its obligations pertaining to Trading Participant fees based on the provisions of Rule 9, Paragraph 1.
2. The Trading Participant Security Money may be deposited in securities in lieu of cash as prescribed by OSE; provided, however, that this shall not apply to Remote Trading Participants.
3. The provisions of Paragraph 3, Item 1 and 2 of the preceding paragraph shall apply to mutatis mutandis to a deposit of Trading Participant Security Money in lieu of cash.

**Rule 12. Prohibition against Assignment of Right to Claim Return of Guarantee Funds, etc.**

No Trading Participant may assign, contract to assign or offer for the purpose of collateral to any other party the right to claim the return of Guarantee Funds and Trading Participant Security Money.

**Rule 13. Liability in Use of Market Facilities**

OSE shall not be liable for compensation in the event that a Trading Participant suffers losses as a result of using the OSE market facilities in the course of its business, unless OSE is considered to have been acting intentionally or is grossly negligent.

**Rule 14. Obligation to Obtain Approval for Mergers, etc.**

1. A Trading Participant must obtain a prior approval of OSE when it intends to take the following actions:
  - (1) Merger with another legal entity in the event that the Trading Participant is to become the surviving company post-merger (excluding those referred to in Item 6 and Item 9 of Rule 15);
  - (2) Succeeding part of the business (meaning Registered Financial Institute Business for a Registered Financial Institution; the same shall apply to this paragraph and Rule 15) to another legal entity as a

- result of demerger (excluding those referred to in Item 9 of Rule 15);
- (3) Succession of the whole business or part of the business from another legal entity as a result of demerger (excluding those referred to in Item 7, Item 9 and Item 10 of Rule 15);
  - (4) Transfer of part of the business (excluding those referred to in Item 9 of Rule 15); or
  - (5) Acceptance of the whole business or the part of the business (excluding those referred to in Item 8, Item 9 and Item 11 of Rule 15).
2. A Trading Participant that intends to obtain the approval set forth in the preceding paragraph must make a notification and application to OSE as stipulated by OSE.
  3. When OSE conducts examination based on the examination prescribed in Rule 30, Paragraph 2, and deems that an action prescribed in each item of Paragraph 1 is inappropriate in the light of the objectives of OSE or operations of the OSE markets, OSE may, after holding hearings with said Trading Participant, refuse to give approval referred to in the same paragraph.
  4. The provisions of the provisos to Paragraph 1 and Paragraphs 2 through 4 of Rule 5 shall apply mutatis mutandis to the refusal of approval referred to in the preceding paragraph.
  5. In the cases where a Trading Participant has obtained approval referred to in Paragraph 1 and is required by OSE to report on its financial condition or any other matter deemed appropriate by OSE, it must immediately report the details to OSE.

**Rule 14-2. Application to an Approval for FX Broker**

1. An FX Trading Participant must obtain the approval of OSE in advance separately for each broker, when entrusted with Exchange FX Transactions from a Foreign Exchange Transaction Broker (meaning a broker who entrusts FX Trading Participants with Exchange FX Transactions a Financial Instruments Business Operator or a Registered Financial Institute and the said entrusted Exchange FX Transactions to said FX Trading Participants is an entrusted brokerage; hereinafter referred to as an "FX Broker").
2. An FX Trading Participant shall, when intending to obtain the approval referred to in the preceding paragraph, apply to OSE as stipulated by OSE.
3. An FX Trading Participant referred to in the preceding paragraph shall pay an approval examination fee in an amount stipulated by OSE.
4. In the event that an FX Trading Participant is given approval in the Paragraph 1, the said FX Trading Participant and the FX Broker related to the said approval must conclude an Agreement with OSE as stipulated by OSE.
5. In addition to the provisions specified in each of the preceding paragraphs, necessary matters concerning FX Brokers shall be stipulated by OSE.

**Rule 15. Matters to Be Notified**

A Trading Participant must, when it intends to take the following actions, notify OSE of the details thereof in advance in accordance with the provisions stipulated by OSE:

- (1) Termination of business (for Financial Instruments Business Operators, meaning businesses pertaining to the acts referred to in Article 28, Paragraph 1, Item 1 of the Act; Type II Financial Instruments Business; or Securities, etc. Management Business. For Registered Financial Institutions, meaning Registered Financial Institution Business and for Authorized Transaction-at-Exchange Operators, meaning Transaction-at-Exchange Operations);
- (2) Mergers, in the event that the Trading Participant becomes extinct upon said merger with another legal entity and mergers in the event that a legal entity is formed upon said merger with another legal entity;
- (3) Dissolution by any means other than merger or determination of the commencement of bankruptcy proceedings;
- (4) Succeeding the whole business to another legal entity as a result of demerger
- (5) Transfer of the entire business;
- (6) Mergers in the event that the Trading Participant merges with another Trading Participant and survives post-merger;
- (7) Succession of the whole business from another Trading Participant as a result of demerger;
- (8) Acceptance of transfer of the entire business from another Trading Participant;
- (9) Action referred to in each item of Rule 14, Paragraph 1, which is separately prescribed by OSE from among actions for which an approval by resolution of a general shareholders meeting is not required under the Companies Act (Act No. 86 of 2005) (or a comparable action in the case of a party other than a stock company);
- (10) Succession of business in whole or in part from a wholly-owned subsidiary as a result of demerger;
- (11) Acceptance of transfer of business in whole or in part from a wholly-owned subsidiary;
- (12) Change in the trade name or name (including change in the English trade name or name); or
- (13) Change in officers
- (14) Suspension from the entrustment of Exchange FX Transactions by FX Brokers as regards to FX Trading Participants provided in Paragraph 1 of Rule 14.

**Rule 16. Matters to Be Reported**

1. Where a Trading Participant falls under cases as prescribed by OSE, it must immediately report the details to OSE.
2. An FX Trading Participant, in addition to those provided in the preceding paragraph, must report to OSE, matters deemed necessary by OSE in accordance with the provisions specified by OSE.

**Rule 17. Obligations to Submit Documents, etc.**

1. In cases referred to in each of the following items or in other cases where OSE deems it necessary in the light of its objectives and the operation of its markets, OSE may require a Trading Participant to submit materials or reports concerning the business and property of said Trading Participant or inspect the status

of said Trading Participant's business and property or accounting books, documents, and other articles.

- (1) In cases where OSE carries out investigations into the status of compliance by a Trading Participant with laws and regulations, dispositions by the administrative authorities under the laws and regulations, OSE rules and regulations or disciplinary actions under such rules and regulations, or just and equitable principles of trade.
  - (2) In cases where OSE conducts an investigation into the financial condition of a Trading Participant;
  - (3) In cases where OSE conducts an investigation for the purpose of securing the fairness in market transactions of derivatives on the OSE markets; and
  - (4) In cases where there is a request for information concerning an investigation for the purpose of ensuring the fairness in market transactions of derivatives or other transactions from another Financial Instruments Exchange or Financial Instruments Firms Association (including foreign organizations corresponding thereto), in the event that OSE considers it appropriate to comply with said request.
2. When a Trading Participant has been required by OSE to submit reports or materials pursuant to the provisions of the preceding paragraph, it shall do this in the manner specified by OSE without delay.

**Rule 18. Matters relating to Acceptance of Entrustment of Transactions**

A Trading Participant must, when it intends to accept entrustment of market transactions of derivatives on the OSE markets (excluding acceptance of entrustment of brokerage for clearing of securities etc.), comply with the Brokerage Agreement Standards stipulated by OSE.

**Rule 19. Obligation to Conduct Investigation on Acceptance of Entrustment of Transactions**

A Trading Participant must, when it intends to accept entrustment of market transactions of derivatives on the OSE markets (excluding entrustment of brokerage for clearing of securities, etc.), conduct an investigation in advance to verify the customer's name and any other matters stipulated by OSE.

**Rule 19-2. Appropriate Measures pertaining to Acceptance of Entrustment**

A Trading Participant must, when it accepts from a customer an entrustment of market transactions of derivatives related to low latency trading (meaning low latency trading prescribed in Article 2, Paragraph 41 of the Act; the same shall apply hereinafter) on the OSE markets (excluding entrustment of brokerage for clearing of securities, etc. ; the same shall apply hereinafter in this rule), implement appropriate measures to ensure the customer responds to requests made by OSE to the customer and those made by Japan Exchange Regulation (hereinafter referred to as "JPX-R") related to operations entrusted by OSE to JPX-R pursuant to the provisions of Rule 2-2, Paragraph 2 of the Business Regulations.

2. The provisions of the preceding paragraph shall be applied mutatis mutandis to the cases where the customer referred in the preceding paragraph is a transaction broker (meaning the customer who entrusts

a market transaction of derivatives to the Trading Participant when such customer is a financial instruments business operator or a foreign securities firm and said entrustment to the Trading Participant is one resulting from an entrustment of brokerage of a market transaction of derivatives). In such cases, the term "the customer" shall be "a customer of the customer who applied to such customer for entrustment of brokerage of a market transaction of derivatives related to low latency trading on the OSE markets".

**Rule 19-3. Promotion of Investor Protection, etc.**

An FX Trading Participant shall endeavor to secure fair Exchange FX Transactions and promote investor protection through appropriate development of risk management systems related to Exchange FX Transactions.

**Rule 19-4. Appropriate Management of the Status in Division Management**

FX Trading Participants must manage appropriately in regards to the status of division management related to Exchange FX Transactions by regularly conducting, more than one time every year, an external audit by certified public accountants or an audit corporation, or an internal audit conducted by an independent company department.

Rule 20. Deleted.

**Rule 20-2. Restriction on Acceptance of Entrustment by Remote Trading Participants**

1. No Remote Trading Participant may accept entrustment of market transactions of derivatives on the OSE markets for the accounts of customers residing in Japan, with knowledge that the said customers are residing in Japan.
2. When accepting entrustment of market transactions of derivatives on the OSE markets from customers residing in a foreign country, a Remote Trading Participant shall apply to OSE in advance as stipulated by OSE and obtain the approval of OSE.
3. The provisions of Paragraphs 3 through 5 of Rule 14 shall apply mutatis mutandis to the approval referred to in the preceding paragraph.

**Rule 21. Establishment of Trading Management System**

A Trading Participant must establish trading management systems relating to the prevention of unfair trading in accordance with the provisions specified by OSE.

**Rule 21-2. Establishment of Order Management System**

A Trading Participant must establish order management system in order to prevent acceptance and placement of erroneous orders in accordance with the provisions specified by OSE.

**Rule 21-3. Establishment of Risk Management System**

A Trading Participant must, as prescribed by OSE, establish risk management system (meaning system managing a risk which can result from fluctuations in prices of the holding positions or securities, etc., a contract default by a transaction counter party or any other reasons; the same shall apply hereinafter) regarding to the positions (meaning an aggregate composed by the said Trading Participant's unsettled contracts (meaning unsettled contracts specified in Rule 4, Paragraph 1, Item 12 of the Business Regulations; the same shall apply hereinafter) pertaining to the market transactions of derivatives on the OSE market.

**Rule 21-4. Development of Corporate Information Management Systems**

A Futures, etc. Trading Participant must develop corporate information management systems that are deemed necessary and appropriate in light of the operations of the OSE markets in order to prevent unfair transactions using corporate information (meaning the corporate information referred to in Article 1, Paragraph 4, Item 14 of the Cabinet Office Ordinance on Financial Instruments Business, etc. (Cabinet Office Ordinance No.52 of 2007))

**Rule 21-5. Obligations, etc. of Remote Trading Participants**

1. A Remote Trading Participant must comply with the matters referred to in the following items, when conducting businesses:
  - (1) To adequately manage electronic data processing systems for Transaction-at-Exchange Operations, etc.; and
  - (2) To prohibit any person other than board members, executives and employees who are considered appropriate by OSE to engage in acts prescribed by OSE pertaining to market transactions of derivatives on the OSE markets.
2. A Remote Trading Participant must comply with rules, board resolutions, and guidelines of Japan Securities Dealers Association which OSE deems that such compliance is necessary for said Trading Participant in light of the exchange trading business carried out by said Trading Participant.

**Rule 22. Responsibility for Market Transactions of Derivatives**

A Trading Participant must assume all responsibilities for market transactions of derivatives on the OSE markets.

**Rule 22-2. Disclosure of Erroneous Orders**

When an erroneous order is placed and OSE makes an announcement pursuant to Rule 52 of the Business Regulations, the Trading Participant that placed said order must disclose, without delay, the issue (or the contract month for government bond futures transactions and index futures transactions) to which the order

was placed and any other matters stipulated by OSE.

**Rule 23. Regulations on Business of Trading Participants in case of Emergency**

OSE may, in addition to those provided in these Regulations, impose on any or all Trading Participants necessary and appropriate regulations relating to their businesses, if OSE considers there is an urgent need therefor in light of the objectives of OSE and the operation of its markets.

**Section 3**

**Obligations, etc. of Trading Participants without Clearing Qualification**

**Rule 24. Definition of Non-Clearing Participants**

1. A Securities Non-Clearing Participant shall mean a Futures, etc. Trading Participant without Securities Clearing Qualification (meaning Securities Clearing Qualification prescribed in the Business Rules of JSCC; the same shall apply hereinafter).
2. A Government Bond Futures, etc. Non-Clearing Participant shall mean a Futures, etc. Trading Participant and a Government Bond Futures, etc. Trading Participant without Government Bond Futures, etc. Clearing Qualification (meaning the JGB Futures Clearing Qualification prescribed in the Business Rules of JSCC; the same shall apply hereinafter).
3. An Index Futures, etc. Non-Clearing Participant shall mean a Futures, etc. Trading Participant without Index Futures Clearing Qualification (meaning Index Futures Clearing Qualification prescribed in the Business Rules of JSCC; the same shall apply hereinafter).
4. A Foreign Exchange Transactions Non-Clearing Participant (hereinafter referred to as an "FX Non-Clearing Participant") shall mean an FX Trading Participant without FX Clearing Qualification (meaning FX Clearing Qualification prescribed in the Business Rules of JSCC; the same shall apply hereinafter).
5. For the purposes of these Regulations, Securities Non-Clearing Participants, Government Bond Futures, etc. Non-Clearing Participants, Index Futures, etc. Non-Clearing Participants and FX Non-Clearing Participants shall be referred to collectively as "Non-Clearing Participants".

**Rule 25. Conclusion of Clearing Entrustment Agreements**

1. A Securities Non-Clearing Participant must conclude a clearing entrustment agreement prescribed in the Business Rules of JSCC with a Securities Agency Clearing Participant (meaning a party holding Agency Clearing Qualification (meaning Agency Clearing Qualification prescribed in the Business Rules of JSCC) pertaining to Securities Clearing Qualification; the same shall apply hereinafter) regarding entrustment of brokerage for clearing of securities, etc. pertaining to securities transactions effected as a result of the exercise in securities options transactions on the OSE markets.
2. A Government Bond Futures, etc. Non-Clearing Participant must conclude a clearing entrustment

agreement prescribed in the Business Rules of JSCC with a Government Bond Futures, etc. Agency Clearing Participant (meaning a party holding Agency Clearing Qualification pertaining to Government Bond Futures, etc. Clearing Qualification; the same shall apply hereinafter) regarding entrustment of brokerage for clearing of securities, etc. pertaining to government bond futures and government bond futures options transactions on the OSE markets.

3. An Index Futures, etc. Non-Clearing Participant must conclude a clearing entrustment agreement prescribed in the Business Rules of JSCC with an Index Futures, etc. Agency Clearing Participant (meaning a party holding Agency Clearing Qualification pertaining to an Index Futures Clearing Qualification; the same shall apply hereinafter) regarding entrustment of brokerage for clearing of securities, etc. pertaining to index futures transactions, securities options transactions, and index options transactions on the OSE markets.
4. An FX Non-Clearing Participant must conclude a clearing entrustment agreement prescribed in the Business Rules of JSCC with an FX Agency Clearing Participant (meaning a party holding Agency Clearing Qualification pertaining to FX Clearing Qualification; the same shall apply hereinafter) regarding entrustment of brokerage for clearing of securities, etc. pertaining to FX Transactions on the OSE markets.
5. Notwithstanding the provisions of Paragraph 1, a Securities Non-Clearing Participant is not required to conclude a clearing entrustment agreement concerning entrustment of brokerage for clearing of securities, etc. pertaining to securities transactions if the approval of OSE is obtained. In such cases, said Futures, etc. Trading Participant may not carry out securities options transactions (excluding those based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. pertaining to securities options transactions.
6. The provisions of the preceding paragraph shall be applied mutatis mutandis to a Futures, etc. Trading Participant that is a Government Bond Futures, etc. Non-Clearing Participant. In such cases, the terms "Paragraph 1." "securities transactions," and both "securities options transactions (excluding those based on brokerage for clearing of securities, etc.)" and "securities options transactions" shall be "Paragraph 2," "government bond futures transactions and government bond futures options transactions," and "these transactions," respectively.

Rule 26. Deleted.

#### **Rule 27. Designation of Designated Clearing Participants**

1. A Non-Clearing Participant must, for each type of clearing qualification, designate one party from among Agency Clearing Participants (meaning Securities Agency Clearing Participants, Government Bond Futures, etc. Agency Clearing Participants, Index Futures, etc. Agency Clearing Participants or FX Agency Clearing Participants; the same shall apply hereinafter) having concluded the clearing entrustment agreement with the Non-Clearing Participant, to which it regularly entrusts brokerage for

clearing of securities, etc. pertaining to such type of clearing qualification (such party shall be hereinafter referred to as the "Designated Clearing Participant").

2. The provisions of the preceding paragraph shall not apply to transactions pertaining to the type of clearing qualification in cases where a clearing entrustment agreement covering securities transactions has not been concluded, with the approval referred to in Rule 25, Paragraph 5 (including cases applied in Paragraph 6 of the same rule).
3. Non-Clearing Participants must, when designating or changing a Designated Clearing Participant stipulated in Paragraph 1, apply to and obtain the approval of OSE in advance in accordance with the regulations of OSE.

#### **Rule 28. Notification of Conclusion of Clearing Entrustment Agreements**

A Non-Clearing Participant must, when concluding a clearing entrustment agreement, notify OSE of the details thereof in advance in accordance with the regulations of OSE.

#### **Rule 29. Report on Termination of Clearing Entrustment Agreements**

A Non-Clearing Participant must report to OSE, details of the termination of clearing entrustment agreements in accordance with the termination categories referred to in the following items as stipulated in each relevant item:

- (1) Termination by agreement:

The report shall be made no later than 3 days (excluding non-business days (in cases of Securities Non-Clearing Participants, Government Bond Futures, etc. Non-Clearing Participants and Index Futures, etc. Non-Clearing Participants, meaning non-business day specified in Rule 19, Paragraph 1 of the Business Regulations (including extraordinary non-business days specified in Paragraph 2 of the same rule), in cases of an FX Non-Clearing Participant, meaning non-business day pursuant to Rule 6 Chapter 1 of the Business Regulations and Brokerage Agreement Standards Relating to Exchange Foreign Exchange Margin Trading (hereinafter referred to as "Special Rules for Exchange FX Transactions")))) prior to the day on which said termination is to take place.

- (2) Termination due to said Non-Clearing Participant giving advance notice in writing to the Agency Clearing Participant of its intention to terminate the agreement:

The report shall be made without delay after giving said notification of intention to terminate.

- (3) Termination (excluding the termination referred to in Item 5) due to said Non-Clearing Participant receiving advance notice in writing from the Agency Clearing Participant of its intention to terminate the agreement:

The report shall be made without delay after receiving said notification of intention to terminate.

- (4) Termination as a result of grounds for forfeiture of benefit of time for obligations of the Non-Clearing Participant relating to transactions based on the entrustment of brokerage for clearing of securities, etc.:

The report shall be made no later than the day before the day on which said termination is to take place (to be moved up in order if it falls on a non-business day; the same shall apply in the following item).

- (5) Termination due to the Non-Clearing Participant receiving advance notice in writing from the Agency Clearing Participant of its intention to terminate the agreement (hereinafter referred to as "special termination"), in the event that said Non-Clearing Participant and the Agency Clearing Participant set a condition in advance under which it can terminate the clearing entrustment agreement in light of ensuring performance of the obligations pertaining to transactions based on the entrustment of brokerage for clearing of securities etc., and such condition is met:

The report shall be made immediately after receiving said notification of intention of special termination and no later than the day before the day on which said special termination is to take place.

#### Section 4

#### Obtainment of Qualification to Participate in Trading

##### Rule 30. Application for Obtainment of Trading Qualification

1. A party that intends to obtain trading qualification must make an application to OSE for obtainment of trading qualification for each type of trading qualification it intends to obtain, as stipulated by OSE.
2. Examination of trading qualification of an applicant for obtainment of trading qualification shall be carried out as stipulated by OSE.
3. An applicant for obtainment of trading qualification shall pay a qualification examination fee in an amount stipulated by OSE.

##### Rule 31. Trading Participant Agreement

A Trading Participant must conclude a Trading Participant Agreement as stipulated by OSE with OSE.

##### Rule 32. Approval for Obtainment of Trading Qualification

1. OSE shall approve the obtainment of trading qualification in accordance with the trading qualification categories listed in the following items by those specified in the relevant item that it considers appropriate as a result of an examination in accordance with the provisions of Rule 30, Paragraph 2.

(1) Futures, etc. Trading Qualification

Those falling under a. or b. below:

- a. Financial Instruments Business Operators (limited to those registered to conduct businesses pertaining to the acts referred to in Article 28, Paragraph 1, Item 1 of the Act; the same shall apply in the following item); or
- b. Authorized Transaction-at-Exchange Operators

(2) Government Bond Futures, etc. Trading Qualification

Those falling under any of a. through c.:

- a. Financial Instruments Business Operators;
- b. Authorized Transaction-at-Exchange Operators; or
- c. Registered Financial Institutions

(3) FX Trading Qualification:

Those falling under a. or b. below:

- a. Financial Instruments Business Operators (limited to those registered Type II Financial Instruments Business (Type II Financial Instruments Business and Securities, etc. Administration Business when accepting the entrustment of Exchange FX Transactions); or
- b. Registered Financial Institutions

2. Where OSE has approved obtainment of trading qualification, OSE shall, by designating the date, have the applicant for obtainment of trading qualification pay a Trading Participation Fee, conclude a Trading Participant Agreement, undertake procedures to obtain any clearing qualification that the applicant does not hold out of the clearing qualification pertaining to the type of trading qualification it intends to obtain (where the applicant does not intend to newly obtain such clearing qualification, conclude a clearing entrustment agreement and designate a Designated Clearing Participant required under the provisions of Rules 25 through 27), deposit Guarantee Funds and Trading Participant Security Money and execute any other procedures for obtaining trading qualification stipulated by OSE. In such cases, if the applicant that has received approval for obtainment of trading qualification holds another OSE trading qualification, the applicant may allocate the current Guarantee Fund and Trading Participant Security Money that have already been deposited by the applicant to those that should be deposited by the applicant for obtainment of trading qualification.
3. With regard to the execution of procedures for obtainment of trading qualification referred to in the first sentence of the preceding paragraph, in cases where the applicant for obtainment of trading qualification obtains the same type of trading qualification through succession of a business in a demerger or purchase of a business from a Trading Participant simultaneously with the waiver of such trading qualification of such Trading Participant, when OSE deems that the Trading Participant whose trading qualification is to be waived and the applicant for obtainment of trading qualification are not substantially different, the applicant may allocate the current Guarantee Fund and Trading Participant Security Money that have already been deposited by the Trading Participant whose trading qualification is to be waived to those that should be deposited by the applicant for obtainment of trading qualification.
4. The amount of the Trading Participation Fee shall be stipulated by OSE in its rules and regulations.
5. If an applicant for obtainment of trading qualification fails to execute the procedures provided in Paragraph 2 by the deadline, its application for trading qualification shall be deemed to have been withdrawn.
6. When OSE has approved the obtainment of trading qualification pursuant to the provisions of Paragraph

1, OSE shall notify each Trading Participant to that effect.

**Rule 33. Date of Obtaining Trading Qualification**

1. When an applicant for obtainment of trading qualification executes the procedures provided in Paragraph 2 of the preceding rule, it shall become a Trading Participant of OSE on the day following the date designated by OSE pursuant to the same paragraph.
2. When an applicant for obtainment of trading qualification becomes a Trading Participant pursuant to the preceding paragraph, OSE shall make a public notice to that effect. However, OSE shall make no public notice with regard to a Remote Trading Participant.
3. When an applicant for obtainment of trading qualification becomes a Trading Participant pursuant to Paragraph 1, OSE shall deliver a Trading Participant Certificate to said Trading Participant.
4. Necessary matters concerning Trading Participant Certificates shall be stipulated by OSE.

**Rule 33-2. Transition between Financial Instruments Business Operators and Authorized Transaction-at-Exchange Operators**

1. In cases where a Remote Trading Participant intends to make registration for financial instruments business or where a Trading Participant that is a financial instrument business operator intends to obtain permission for the exchange trading business, it must obtain the approval of OSE.
2. If a Trading Participant intends to obtain the approval referred to in the preceding paragraph, it must make an application to OSE as stipulated by OSE.
3. The provisions of Paragraphs 3 and 4 of Rule 14 shall apply mutatis mutandis to the approval referred to in Paragraph 1.
4. When a Remote Trading Participant that intends to make registration for financial instruments business has obtained the approval prescribed in Paragraph 1, said Participant shall pay OSE an amount of money prescribed in OSE's rules by a day immediately prior to a day on which said Participant will make said registration.

**Section 5**

**Waiver of Trading Qualification**

**Rule 34. Application for Waiver of Trading Qualification**

When a Trading Participant intends to waive its trading qualification of OSE, it must make an application to OSE for waiver of trading qualification for each type of trading qualification it intends to waive, in accordance with the provisions specified by OSE.

**Rule 34-2. Special Rule for Application for Waiver of Trading Qualification Relating to Discontinuation of Exchange FX Transactions**

Notwithstanding of the provisions of the preceding rule, in cases where OSE intends to conduct discontinuation of Exchange FX Transactions (meaning discontinuation of Exchange FX Transactions prescribed in Rule 29-2, Paragraph 1 of the Special Rules for Exchange FX Margin Trading), a Trading Participant that holds FX trading qualification at the discontinuation shall be deemed that it has applied for waiver of the FX trading qualification on the date specified by OSE.

**Rule 35. Measures Including Suspension from Market Transactions of Derivatives of Applicants for Waiver of Trading Qualification**

1. OSE shall, on or after the day following the day (to be moved down if it falls on a non-business day) when OSE received an application from a Trading Participant for waiver of trading qualification, suspend market transactions of derivatives on the OSE markets (excluding transactions based on brokerage for clearing of securities, etc.; the same shall apply hereinafter in this paragraph and the following rule) or entrustment of brokerage for clearing of securities, etc. of the Trading Participant, which pertain to such trading qualification of the Trading Participant.
2. Notwithstanding the provisions of the preceding paragraph, the applicant for waiver of trading qualification may, to the extent necessary to complete necessary procedures as prescribed in the provision of Rule 34 of the Clearing and Settlement Regulations, with the approval of OSE, carry out market transactions of derivatives and entrustment of brokerage for clearing of securities, etc. on the OSE markets.

**Rule 36. Market Transactions of Derivatives in case of Merger, etc. of Applicants for Waiver of Trading Qualification**

Notwithstanding the provisions of Paragraph 1 of the preceding rule, in cases where an applicant for waiver of trading qualification is, concurrently with waiver of its trading qualification, merged by a party that obtains or has the same type of such trading qualification and has such party succeed its business or transfers its business as a result of demerger to such party, and OSE considers it is unnecessary to clear unsettled contracts with respect to market transactions of derivatives or transactions based on the entrustment of brokerage for clearing of securities, etc. or other transactions relating thereto on the OSE markets, OSE may choose not to suspend said applicant for waiver of trading qualification from effecting market transactions of derivatives and entrustment of brokerage for clearing of securities, etc. on the OSE markets.

**Rule 37. Approval for Waiver of Trading Qualification**

1. OSE shall approve waiver of trading qualification, designating a future date.
2. OSE shall, in cases where it has approved waiver of trading qualification, notify each Trading Participant to that effect.

**Rule 38. Procedures for Waiver of Trading Qualification**

1. In the event that a Trading Participant (excluding Remote Trading Participants; the same shall apply in Paragraph 3) waives its trading qualification (including a waiver by means of revocation; the same shall apply hereinafter), OSE shall immediately make a public notice about the waiver of such Trading Participant's trading qualification (or, in the event that it returns the Guarantee Fund to the Trading Participant (excluding those that do not carry out accepting of entrustment business related to market transactions of derivatives covered by the type of said trading qualification), the withdrawal of the Trading Participant's trading qualification and the return of said Trading Participant's Guarantee Fund).
2. The provisions of the latter part of the preceding paragraph relating to Guarantee Funds shall not apply to cases where the Trading Participant that waived its trading qualification is given approval to obtain another trading qualification at the same time as the waiver of its trading qualification.
3. No Trading Participant may claim return of its Guarantee Fund due to waiver of trading qualification until six (6) months have elapsed from the date when the public notice was issued pursuant to the provisions of the preceding paragraph.
4. No Trading Participant may claim return of its Trading Participant Security Money due to waiver of trading qualification until two (2) months have elapsed from the date when the trading qualification was waived.
5. Where OSE in particular deems it necessary, it may change the period prescribed in the preceding two paragraphs.
6. Notwithstanding the provisions of the preceding three paragraphs, no Trading Participant may claim return of its Guarantee Fund and Trading Participant Security Money due to waiver of trading qualification where its Guarantee Fund and Trading Participant Security Money have been applied to such deposit requirements prescribed in the second sentence of Rule 32, Paragraph 2 (limited to cases where new trading qualification is obtained simultaneously with the waiver of the existing trading qualification) and Paragraph 3 of the same rule.
7. When a Trading Participant waives trading qualification of OSE, it must return its Trading Participant Certificate to OSE and undertake any other procedures stipulated by OSE.

**Rule 39. Repayment of Debts of Trading Participant that Waived Trading Qualification**

A party that has waived trading qualification must appropriate funds or securities returned by OSE to the repayment of all debts it owes to other Trading Participants and OSE as a Trading Participant.

**Rule 40. Trading, etc. in the Case of Waiving Trading Qualification**

In the event that a Trading Participant has waived its trading qualification, the Trading Participant itself or its general successor may, to the extent necessary to complete necessary procedures, in accordance with the provisions of Rule 35 of the Clearing and Settlement Regulations, with the approval of OSE, carry out market transactions of derivatives (excluding transactions based on brokerage for clearing of securities,

etc.) and entrustment of brokerage for clearing of securities, etc. on the OSE markets.

**Rule 41. Exemption from Trading Participation Fee**

In cases where OSE considers that the situation prescribed in Rule 32, Paragraph 3 applies, it may exempt from payment of a Trading Participation Fee a party that obtains the same type of trading qualification simultaneously with the waiver of trading qualification of an applicant for waiver of trading qualification.

**Section 6**

**Disciplinary Actions, etc. against Trading Participants**

**Rule 42. Disciplinary Actions against Trading Participants**

1. In cases where OSE deems that a Trading Participant falls under any of the following items, OSE may, after holding a hearing with said Trading Participant, take disciplinary actions referred to in the following items pursuant to Article 47 of the Articles of Incorporation:
  - (1) Revocation of its trading qualification, if the Trading Participant is granted trading qualification by dishonest means;
  - (2) Revocation of its trading qualification, if the Trading Participant ceases to conform to the provisions of Rule 4, Paragraph 2;
  - (3) Revocation of its trading qualification, if the Trading Participant falls into insolvency and is unable to recover easily;
  - (4) Suspension from or restriction on market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.; the same shall apply hereinafter in this paragraph) or entrustment of brokerage for clearing of securities, etc. on the OSE markets for no longer than 6 months, or revocation of trading qualification, if the Trading Participant is in breach of its agreement with OSE concerning market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets;
  - (5) Suspension from or restriction on market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets for no longer than 6 months, or revocation of trading qualification, if the Trading Participant fails to pay, deliver or deposit funds or securities that it is obliged to pay, deliver to, or deposit with OSE in accordance with the provisions specified by OSE;
  - (6) A fine of not more than 100 million yen, admonition, suspension from market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets for no longer than 6 months, or revocation of trading qualification, if the Trading Participant refuses, obstructs or avoids an investigation pursuant to the provisions of Rule 17, or fails to submit reports or documents, or submits false reports or documents pursuant to the same rule, or refuses, obstructs or avoids an investigation pursuant to Rule 54;
  - (7) A fine of not more than 100 million yen, admonition, suspension from market transactions of

- derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets for no longer than 6 months, or revocation of trading qualification, if the Trading Participant fails to give notification pursuant to Rule 15 or make a report pursuant to Rule 16, or gives a false notification or makes a false report; or
- (8) Revocation of its approval, if the approval referred to in Rule 14-2 of Paragraph 1 is given through an illegal measure.
- (9) A fine of not more than 100 million yen, admonition, suspension from or restriction on market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets for no longer than 6 months, or revocation of trading qualification, if the Trading Participant breaches laws and regulations (including foreign financial instruments and exchange laws and regulations if the Trading Participant is a foreign corporation that is a financial instruments business operator or an Authorized Transaction-at-Exchange Operator; the Banking Act (Act No. 59 of 1981) and its related laws and regulations (hereinafter referred to as "Banking Act and Regulations") if the Trading Participant is a Registered Financial Institution other than a foreign bank or an insurance company; the Banking Act and Regulations and foreign banking laws and regulations or foreign financial instruments and exchange laws and regulations; the Insurance Business Act (Act No. 105 of 1995) and its related laws and regulations (hereinafter referred to as "Insurance Business Act and Regulations") if the Trading Participant is an insurance company; the same shall apply hereinafter), dispositions by the administrative authorities under the laws and regulations, or the Articles of Incorporation, Business Regulations, Brokerage Agreement Standards or any other regulations of OSE or disciplinary actions thereunder, or behaves contrary to just and equitable principles of trade, other than as referred to in the preceding items.
2. Notwithstanding the provisions of the preceding paragraph, in the event that a Trading Participant breaches laws and regulations or dispositions by the administrative authorities under the laws and regulations and OSE considers that it has thereby severely damaged the credibility of OSE or any Trading Participant of OSE, OSE may, after holding a hearing with said Trading Participant, take disciplinary action of a fine of not more than 500 million yen, admonition, suspension from or restriction on market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets for no longer than 6 months, or revocation of trading qualification.
3. OSE may, when it takes disciplinary actions pursuant to the provisions of the preceding two paragraphs, impose a fine concurrently with suspension from or restriction on market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets, or admonition.

### **Rule 43. Regulatory Dispositions against Trading Participants**

1. In cases where a Trading Participant falls under any of the following items, OSE may, after holding a

hearing with said Trading Participant and indicating the reason, enact regulatory disposition of suspension from or restriction on market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets, or other regulatory dispositions deemed necessary and appropriate by OSE:

- (1) Where a Trading Participant fails to comply with demand to change its cooperative or control relationship with officers or other parties pursuant to the provisions of Rule 5;
- (2) Where a majority of all shareholders' voting rights (excluding voting rights attaching to shares where the voting rights cannot be exercised in relation to all matters that can be resolved by a general meeting of shareholders and including voting rights attaching to shares deemed to have voting rights pursuant to Article 879, Paragraph 3 of the Companies Act) or of voting rights related to capital contributions come to be held by parties OSE considers inappropriate in the light of the objectives of OSE or the operation of the OSE markets, or the Trading Participant becomes a subsidiary (meaning a subsidiary prescribed in Article 2, Paragraph 3 of the Companies Act (excluding cases where a majority of all shareholders' voting rights or of voting rights related to capital contributions are held)) of such a party; or
- (3) Where OSE considers that a party with authority over the Trading Participant equal to or greater than that of a director or executive officer, regardless of whether they hold the title of consultant or adviser or whatever other title, is inappropriate in the light of the objectives of OSE or the operation of the OSE markets.

2. In cases where a Trading Participant falls under any of the following items, OSE may, after holding a hearing with said Trading Participant, suspend or restrict said Trading Participant's market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets until such circumstances have been resolved:

- (1) Where the amount of stated capital, total amount of capital contribution (or the total amount of funds (including the reserve for redemption of funds) in the case of a mutual company,) or the amount of net worth (or net assets in the case of a Registered Financial Institution) falls below 300 million yen;
- (2) For Financial Instruments Business Operators, when the capital-to-risk ratio (or the ratio calculated as provided in Rule 46-6, Paragraph 1 of the Act in the case of an entity that do not conduct Type 1 Financial Instruments Business) falls below 120%;
- (2)-2 For Special Financial Instruments Business Operators (meaning Special Financial Instruments Business Operators prescribed in Article 57-5, Paragraph 2 of the Act), when the state of soundness of management as prescribed in Article 57-5, Paragraph 2 of the Act falls below the level stipulated by OSE;
- (3) Where Internationally Active Banks, the Norinchukin Bank, Internationally Active Shinkin Banks, and the Shoko Chukin, Ltd. (hereinafter referred to as "Internationally Active Bank, etc.) fall under

any of the following a. to c. (for a foreign bank, in equivalent cases that OSE considers it necessary.)

- a. Consolidated or non-consolidated common equity Tier 1 Ratio (meaning, for the Norinchukin Bank and Internationally Active Shinkin Banks, consolidated or non-consolidated common equity contribution Tier 1 Ratio) falls below 2.25%.
- b. Consolidated or non-consolidated Tier 1 Ratio falls below 3%F
- c. Consolidated or non-consolidated total capital ratio falls below 4%

(3)-2 where, for registered financial institutions other than Internationally Active Banks, foreign banks, and insurance companies, consolidated or non-consolidated capital ratio pertaining to domestic standards falls below 2 % (for a foreign bank, in the case that OSE considers it necessary.).

(4) For insurance companies, where solvency margin ratio falls below 100%.

(5) For Authorized Transaction-at-Exchange Operators, where OSE considers the state of its capital adequacy has deteriorated to the same degree as the level specified in Item 2 and the preceding 2 items, in light of assets held, etc.;

(6) When an Authorized Transaction-at-Exchange Operator has become suspended from transactions of securities and market transactions of derivatives due to a disciplinary action or disposition by a foreign financial instruments exchange.

3. In cases where a Trading Participant falls under any of the following items, OSE may, after holding a hearing with said Trading Participant, suspend its market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets; provided, however, that the suspension from market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. that OSE may impose in cases where a Trading Participant falls under Item 1 shall be until such circumstances have been resolved:

- (1) Where the Trading Participant falls into insolvency or is in danger of falling into insolvency; or
- (2) Where the Trading Participant fails to apply for waiver of its trading qualification in the event that a public notice of any of the matters listed in Rule 15, Items 1 through 5 has been made (or, for Remote Trading Participants, in the event any of the matters listed in Items 1 through 5 is notified to OSE).

4. A Trading Participant subject to suspension from market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets pursuant to the preceding paragraph may, to the extent necessary to complete necessary procedures, in accordance with the provisions of Rule 36 of the Clearing and Settlement Regulations, with the approval of OSE, carry out market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) and entrustment of brokerage for clearing of securities, etc. on the OSE markets.

#### **Rule 44. Termination of Regulatory Dispositions such as Suspension from Market Transactions of**

**Derivatives**

1. A Trading Participant subject to suspension from market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets or other regulatory dispositions pursuant to the preceding rule and Rule 47 without the period thereof having been prescribed may, if the reason for the regulatory dispositions has been removed, apply to have said action terminated, upon attaching a written explanation thereof.
2. OSE shall, if it considers the termination of the regulatory disposition appropriate based on the application referred to in the preceding paragraph, approve such application.
3. If a Trading Participant subject to suspension from market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets or other regulatory dispositions pursuant to the preceding rule and Rule 47 without the period thereof having been prescribed is unable to obtain the approval referred to in the preceding paragraph within one year after the day it was subject to said regulatory dispositions, OSE may revoke the trading qualification of said Trading Participant.

**Rule 45. Regulatory Actions against Trading Participants subject to Dispositions under Laws and Regulations**

In the event that a Trading Participant is subject to disposition under laws and regulations to suspend its business in whole or in part or rescind its registration or permission, OSE shall, in keeping with the details of that disposition, immediately subject said Trading Participant to suspension from or restriction on market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets or revoke its trading qualification.

**Rule 46. Objections to Disciplinary Actions or Regulatory Dispositions**

The provisions of the proviso to Paragraph 1 and Paragraph 2 of Rule 5 shall apply mutatis mutandis to the hearings referred to in Rule 42 and Rule 43, and the provisions of Paragraph 3 and Paragraph 4 of Rule 5 shall apply mutatis mutandis to the disciplinary actions or regulatory dispositions referred to in Rule 42 and Rule 43.

**Rule 47. Suspension from or Restriction on Market Transactions of Derivatives and Entrustment of Brokerage for Clearing of Securities, etc. for Trading Participants subject to Revocation of Clearing Qualification, etc.**

1. OSE shall, in the event that a Trading Participant has its clearing qualification revoked, or is subject to measures to suspend the assumption of obligations in whole or in part under the Business Rules of JSCC suspend/restrict said Trading Participant from/on market transactions of derivatives (excluding

transactions based on brokerage for clearing of securities, etc.; the same shall apply hereinafter in this rule and the following rule ) or entrustment of brokerage for clearing of securities, etc. on the OSE markets, according to the details of such measures.

2. A Trading Participant as referred to in the preceding paragraph may, to the extent necessary to complete necessary procedures, in accordance with the provisions of Rule 36 of the Clearing and Settlement Regulations, with the approval of OSE, carry out market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets.

**Rule 48. Suspension from or Restriction on Non-Clearing Participants' Market Transactions of Derivatives or Entrustment of Brokerage for Clearing of Securities, etc. in cases where Designated Clearing Participant has had its Clearing Qualification Revoked, etc.**

1. OSE shall, in the event that the Designated Clearing Participant of a Non-Clearing Participant has its clearing qualification revoked, or is subject to measures to suspend the assumption of obligations in whole or in part under the Business Rules of JSCC suspend or limit market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. relating to securities transactions, etc. of said Non-Clearing Participant on the OSE markets, according to the details of such regulatory action.
2. Non-Clearing Participants as referred to in the preceding paragraph may, to the extent necessary to complete necessary procedures, in accordance with the provisions of Rule 37 of the Clearing and Settlement Regulations, with the approval of OSE, market transactions of derivatives or entrust brokerage for clearing of securities, etc.

**Rule 49. Measures when Designated Clearing Participant has not been Designated**

1. If a Non-Clearing Participant has not designated a Designated Clearing Participant (excluding cases where a Designated Clearing Participant is not designated pursuant to Rule 27, Paragraph 2 and cases where a Designated Clearing Participant is no longer acting as the Designated Clearing Participant resulting from special termination of the clearing entrustment agreement with a Non-Clearing Participant), OSE shall suspend said Non-Clearing Participant's entrustment of brokerage for clearing of securities, etc. corresponding to the type of clearing qualification for which said designation has not been made (including securities options transactions (excluding transactions based on brokerage for clearing of securities, etc.; the same shall apply hereinafter in this rule and the following rule) or entrustment of brokerage for clearing of securities, etc. relating to securities options transactions in the event that the clearing qualification for which said designation has not been made is a Securities Clearing Qualification).
2. In cases referred to in the preceding paragraph, if the Designated Clearing Participant ceases to be the Designated Clearing Participant due to the termination of the clearing entrustment agreement with the Non-Clearing Participant, said Non-Clearing Participant may, notwithstanding the provisions of the same Paragraph, with the approval of OSE, entrust securities options transactions or brokerage for clearing of

securities, etc. to the extent necessary to resolve transactions based on said Non-Clearing Participants' securities options transactions, entrustment of brokerage for clearing of securities, etc. and transactions related thereto that are unsettled.

3. In cases as described in the preceding paragraph, the party who had hitherto been the Designated Clearing Participant shall be deemed to be said Non-Clearing Participant's Designated Clearing Participant with respect only to the settlement of transactions based on said Non-Clearing Participants' entrustment of brokerage for clearing of securities, etc. and transactions related thereto that are unsettled.

#### **Rule 49-2. Measures when Special Termination was Made**

1. If a Non-Clearing Participant has not designated a Designated Clearing Participant (limited to cases where a Designated Clearing Participant is no longer acting as Designated Clearing Participant resulting from special termination of the clearing entrustment agreement with a Non-Clearing Participant), OSE shall suspend said Non-Clearing Participant's entrustment of brokerage for clearing of securities, etc. corresponding to the type of clearing qualification for which said designation has not been made (including entrustment of securities options transactions or brokerage for clearing of securities, etc. relating to securities options transactions in the event that the clearing qualification for which said designation has not been made is Securities Clearing Qualification).
2. Notwithstanding the provisions of the preceding paragraph, the Non-Clearing Participant referred to in the preceding paragraph may, with the approval of OSE, entrust securities options or brokerage for clearing of securities, etc. to the extent necessary to resolve transactions based on said Non-Clearing Participant's entrustment of securities options transactions, brokerage for clearing of securities, etc. and transactions related thereto that are unsettled, as well as to resolve unsettled transactions pertaining to margin transactions.
3. In cases referred to in the preceding paragraph, the party who had hitherto been the Designated Clearing Participant shall be deemed to be said Non-Clearing Participant's Designated Clearing Participant with respect only to the settlement of transactions based on said Non-Clearing Participants' entrustment of brokerage for clearing of securities, etc.

#### **Rule 50. Notification of Disciplinary Actions, Regulatory Dispositions or Measures**

1. When OSE has taken a disciplinary action, regulatory disposition or measure (limited to the suspension from or restriction on the Trading Participant's market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or revocation of its trading qualification) against a Trading Participant in accordance with the provisions of this section (excluding Rule 48), OSE shall notify each Trading Participant to that effect.
2. In the event that the disciplinary action, regulatory disposition or measure taken by OSE against a Trading Participant in accordance with the provisions of this section is the suspension from or restriction on the Trading Participant's market transactions of derivatives (excluding transactions based on

brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets, said Trading Participant must publicly display notices to that effect at business locations, etc. in accordance with the provisions specified by OSE.

#### **Rule 51. Breach of Just and Equitable Principles of Trade**

Actions contrary to just and equitable principles of trade pursuant to the Articles of Incorporation and these Regulations shall mean the actions listed below and other actions stipulated in the regulations of OSE, in light of the objectives of OSE or the operation of the OSE markets, damage the credibility of OSE or Trading Participants of OSE or are contrary to good faith in respect of OSE or Trading Participants of OSE:

- (1) Interfering with or obstructing the business of OSE or the business of other Trading Participants;
- (2) A fraudulent act, dishonest or improper conduct, or excessively careless or negligent business practices in connection with securities transactions, market transactions of derivatives, foreign market derivative transactions or other similar transactions; and
- (3) Buying up stocks and selling such shares lucratively to an entity concerned with the issuing company of the stock, against his/her will, by taking advantage of being a holder of a large amount of shares of the stock, or acceptance of orders to buy shares of such stock (excluding acceptance of entrustment of brokerage for clearing of securities, etc.) for account of an entity that intends to carry out the similar sort of conduct thereto.

#### **Rule 52. Recommendations to Trading Participants**

1. If OSE considers that the business or financial condition of a Trading Participant is inappropriate in the light of the objectives of OSE or the operation of the OSE markets, OSE may recommend to said Trading Participant appropriate steps to be taken.
2. In cases where OSE made a recommendation as referred to in the preceding paragraph and deems it necessary, OSE may request said Trading Participant to provide reports on measures taken thereto.

### **Chapter 2-2**

#### **Obtainment of Trading Qualification by Specified Bridge Financial Institution, etc.**

##### **Rule 52-2. Examination on Trading Qualification pertaining to Specified Bridge Financial Institution, etc.**

Notwithstanding the provisions of Rule 30, Paragraph 1 and Paragraph 2, a specified bridge applicant for obtainment of trading qualification (meaning a specified bridge financial institution, etc. (meaning the specified bridge financial institution as defined in Article 126-34, Paragraph 3, Item 5 of the Deposit Insurance Act (Act No. 34 of 1971)) that applies to OSE for obtainment of trading qualification; the same shall apply hereinafter) is exempt from examination of trading qualification and payment of qualification

examination fee.

**Rule 52-3. Approval of Obtainment of Trading Qualification pertaining to Specified Bridge Applicant for Obtainment of Trading Qualification**

1. Notwithstanding the provisions of Rule 32, Paragraph 1, OSE may grant approval of obtainment of trading qualification to a specified bridge applicant for obtainment of trading qualification.
2. Notwithstanding the provisions of Rule 32, Paragraph 2, where OSE has approved the obtainment of trading qualification pursuant to the provisions of the preceding paragraph, out of trading qualification obtainment procedures prescribed in Rule 32, Paragraph 2, payment of Trading Participation Fee and deposit of Trading Participant Security Money shall not be needed, and OSE shall make the specified bridge applicant for obtainment of trading qualification deposit the Guarantee Fund by the day specified by OSE on a case-by-case basis pursuant to the provisions of Paragraph 1 of the following rule.

**Rule 52-4. Date of Obtaining Trading Qualification pertaining to Specified Bridge Applicant for Obtainment of Trading Qualification**

1. Notwithstanding the provisions of Rule 33, Paragraph 1, a specified bridge applicant for obtainment of trading qualification shall become a Trading Participant on a date specified by OSE on a case-by-case basis.
2. The provisions of Rule 33, Paragraph 2 to Paragraph 4 shall be applied to cases where an applicant for obtainment of a specified bridge trading qualification becomes a Trading Participant pursuant to the provisions of the preceding paragraph.

**Rule 52-5. Obligation of Specified Failed Trading Participant to Obtain Approval Regarding Merger, etc.**

Notwithstanding the provisions of Rule 14, Paragraph 1, in cases where a specified failed Trading Participant (meaning a Trading Participant that is designated as a specified failed financial institution under Specified Type II Measures prescribed in Article 126-2, Paragraph 1, Item 2 of the Deposit Insurance Act) intends to conduct acts referred to in Paragraph 1, Item 2 or Item 4 of the same rule, it shall not be required to obtain prior approval of OSE.

### **Chapter 3**

#### **Mediation**

**Rule 53. Requests for Mediation**

1. Regarding disputes that arise between Trading Participants concerning market transactions of derivatives on the OSE market, if there is a request, made in accordance with the provisions specified by OSE, from

the Trading Participant that is a party involved, to mediate in such dispute, OSE shall mediate therein; provided, however, that if OSE considers that, in view of the nature of the dispute, it would be inappropriate for it to mediate, or if it considers that the party involved has unnecessarily requested mediation with an improper purpose, or if either party involved will not accept mediation, OSE may decline to mediate.

2. Regarding disputes referred to in the preceding paragraph, if there is a request for mediation from one of the parties involved, the other Trading Participant involved must accept the mediation of OSE.

#### **Rule 54. Necessary Investigation for Mediation**

When mediating, OSE may investigate matters concerning the Trading Participants involved that are necessary for the purpose of mediation.

#### **Rule 55. Mediation Regulations**

1. Mediation request procedures, the method of mediation and other matters necessary for mediation shall be stipulated in the mediation regulations.
2. The enactment of and amendments to the mediation regulations shall be made by resolution of the Board of Directors; provided, however, that this shall not apply to minor amendments.

#### **Rule 55-2. Entrustment of Self-regulatory Operations**

1. OSE may entrust JPX-R with the activities prescribed in each of the following items out of the self-regulatory operations as prescribed in Rule 84, Paragraph 2 of the Act;
  - (1) Examination of the eligibility of Trading Participants;
  - (2) Investigation of the compliance status by a Trading Participant with the Laws and Regulations, disciplinary actions or dispositions taken by the administrative authorities under the Laws and Regulations, or the Articles of Incorporation and other regulations of OSE or just and equitable principles of trade of OSE;
  - (3) Examination of the details of market transactions of derivatives executed or conducted by Trading Participants in the financial instruments exchange market; and
  - (4) Operations related to disciplinary actions and other regulatory actions against Trading Participants.
2. Trading Participants and persons who intend to obtain trading qualification shall respond to the examination, investigation, report or materials submission, or inspection and hearing conducted by JPX-R with respect to the operations entrusted to JPX-R by OSE pursuant to the provisions of the preceding paragraph.
3. With respect to the operations entrusted to JPX-R by OSE pursuant to the provisions of Paragraph 1, OSE shall grant approval or effect disciplinary actions or other regulatory actions based on the result of examination or investigation conducted by JPX-R.

**Rule 55-3. Entrustment of Affairs Concerning Guarantee Fund and Trading Participant Security Money**

1. OSE may entrust a person designated by OSE with affairs concerning the Guarantee Fund and the Trading Participant Security Money prescribed by OSE.
2. Deposit by a Trading Participant of the Guarantee Fund and the Trading Participant Security Money shall, in addition to the provisions prescribed in these Regulations, be subject to the provisions prescribed, with the approval of OSE, by a person designated pursuant to the provisions of the preceding paragraph pertaining to the affairs set forth in the same paragraph.

**Chapter 4**

**Miscellaneous Provisions**

**Rule 56. Application to Brokerage for Clearing of Securities, etc.**

The provisions of Rule 4, Paragraph 1, Rule 22 and Rule 22-2 shall apply to the brokerage for clearing of securities, etc. by regarding a Trading Participant that entrusts brokerage for clearing of securities, etc. as an entity that effects said market transactions of derivatives.

**Rule 57. Determination of Necessary Matters concerning Trading Participants**

OSE may, in addition to the matters provided in these Regulations, prescribe regulations regarding the required interpretation thereof if necessary in relation to Trading Participants of OSE.

## **Clearing and Settlement Regulations**

(As of February 13, 2018)

Osaka Exchange, Inc.

### **Chapter 1**

#### **General Provisions**

##### **Rule 1. Purpose**

1. These Regulations stipulate necessary matters concerning clearing and settlement of market transactions of derivatives on the markets of Osaka Exchange, Inc. (hereinafter referred to as "OSE") (meaning the financial instruments exchange markets established by OSE; the same shall apply hereinafter) in accordance with the provisions of Rule 2, Paragraph 2 of the Business Regulations.
2. Any amendments to these Regulations shall be made by resolution of the Board of Directors; provided, however, that this shall not apply in cases of minor amendments.

##### **Rule 2. Definitions of Terms**

1. For the purposes of these Regulations, the meanings of the terms relating to government bond futures transactions (meaning transactions enumerated in Article 2, Paragraph 21, Item 1 of the Financial Instruments and Exchange Act (Act No. 25 of 1948; hereinafter referred to as the "Act") pertaining to the standardized government bonds or transactions enumerated in Item 2 of the same paragraph pertaining to prices of such standardized government bonds; the same shall apply hereinafter) shall be as prescribed in the Business Regulations and the Special Rules for Business Regulations and Brokerage Agreement Standards Relating to the J-NET Market (hereinafter referred to as the "J-NET Special Rules), unless otherwise prescribed in these Regulations.
2. For the purposes of these Regulations, the meanings of the terms relating to index futures transactions (meaning transactions enumerated in Article 2, Paragraph 21, Item 2 of the Act that relates to an index) shall be as prescribed in the Business Regulations and the J-NET Special Rules, unless otherwise prescribed in these Regulations.
3. For the purposes of these Regulations, the meanings of the terms relating to securities options transactions (meaning transactions enumerated in Article 2, Paragraph 21, Item 3 of the Act that relates to transactions in securities; the same shall apply hereinafter) (excluding the terms used regarding transactions in securities) shall be as prescribed in the Business Regulations and the J-NET Special Rules, unless otherwise prescribed in these Regulations.
4. For the purposes of these Regulations, the meanings of the terms relating to government bond

futures options transactions (except for terms used for government bond futures transactions) (meaning transactions enumerated in Article 2, Paragraph 21, Item 3 of the Act; the same shall apply hereinafter) shall be as prescribed in the Business Regulations and the J-NET Special Rules, unless otherwise prescribed in these Regulations.

5. For the purposes of these Regulations, the meanings of the terms relating to index options transactions (meaning, among those enumerated in Article 2, Paragraph 21, Item 3 of the Act, transactions (limited to transactions relating to indices) prescribed in the Business Regulations as those equivalent to transactions enumerated in Item 2 of the same paragraph; the same shall apply hereinafter) shall be as prescribed in the Business Regulations and the J-NET Special Rules, unless otherwise prescribed in these Regulations.
6. The meaning of terms relating to the Exchange-FX Margin Transactions (meaning those relating to the price of currency among the transactions enumerated in Article 2, Paragraph 21, Item 2 of the Act; hereinafter referred to as "Exchange-FX Transaction") used in these Rules shall be prescribed in the Special Rules for Business Regulations and Brokerage Agreement Standards relating to Exchange-FX Margin Transactions (hereinafter referred to as "Special Rules for Exchange-FX Transactions").
7. For the purposes of these Regulations, the meanings of the terms relating to Trading Participants shall be as prescribed in the Trading Participant Regulations, unless otherwise prescribed in these Regulations.
8. For the purposes of these Regulations, the meanings of the terms relating to cross margining shall be as prescribed in the Business Rules of Japan Securities Clearing Corporation (hereinafter referred to as "JSCC"), unless otherwise prescribed in these Regulations.

### **Rule 3. Designation of Party to Conduct Financial Instruments Obligation Assumption Business**

OSE shall designate JSCC as the financial instruments clearing organization that conducts financial instruments obligation assumption business in relation to market transactions of derivatives that are executed on the OSE markets.

## **Chapter 2**

### **Settlement by Clearing Participants**

#### **Rule 4. Settlement by Clearing Participants**

1. The settlement of government bond futures transactions and government bond futures options transactions executed on the OSE markets shall be carried out between Government Bond Futures, etc. Clearing Participants (meaning a party with Government Bond Futures, etc. Clearing Qualification (meaning the JGB Futures Clearing Qualification prescribed in the

Business Rules of JSCC; the same shall apply hereinafter); the same shall apply hereinafter) and JSCC as prescribed in the Business Rules of JSCC.

2. The settlement of index futures transactions, securities options transactions, and index options transactions executed on the OSE markets shall be carried out between Index Futures, etc. Clearing Participants (meaning a party with Index Futures Clearing Qualification (meaning the Index Futures Clearing Qualification prescribed in the Business Rules of JSCC; the same shall apply hereinafter); the same shall apply hereinafter) and JSCC as prescribed in the Business Rules of JSCC.
3. The settlement of Exchange-FX Transactions executed on the OSE markets shall be carried out between FX Clearing Participants (meaning a party with FX Clearing Qualification (meaning the FX Clearing Qualification prescribed in the Business Rules of JSCC; the same shall apply hereinafter); the same shall apply hereinafter) and JSCC as stipulated in the Business Rules of JSCC.

### **Chapter 3**

#### **Settlement between Non-Clearing Participants and Clearing Participants**

##### **Section 1**

##### **Settlement of Government Bond Futures Transactions**

###### **Rule 4-2. Notification of Close-out Quantity, etc.**

1. For each contract month of government bond futures, a Government Bond Futures, etc. Non-Clearing Participant (see Note 1 below) shall notify its Designated Government Bond Futures, etc. Clearing Participant (see Note 2 below) of the close-out quantity (meaning, when having long positions based on entrustment of brokerage for clearing of securities, etc. (hereinafter referred to as "Clearing Brokerage Long Positions") and short positions based on entrustment of brokerage for clearing of securities, etc. (hereinafter referred to as "Clearing Brokerage Short Positions") for any one issue at the same time and settling such positions in whole or part (excluding those by resale or repurchase), the quantity of such settled positions; the same shall apply hereinafter) and the quantity of resale and repurchase in the event that a resale pertaining to Clearing Brokerage Long Positions or a repurchase pertaining to Clearing Brokerage Short Positions is executed, for each account managed by the Designated Government Bond Futures, etc. Clearing Participant prescribed in the Business Rules of JSCC, no later than the cut-off time specified by such Designated Government Bond Futures, etc. Clearing Participant that is before the cut-off time specified by JSCC; provided, however, that this shall not apply in cases where such Designated Government Bond Futures, etc. Clearing Participant understands the details to be notified, or such Government Bond Futures, etc. Non-Clearing

Participant has made such notification to JSCC pursuant to the rules of JSCC.

(Note 1) A Government Bond Futures, etc. Non-Clearing Participant means a Government Bond Futures, etc. Non-Clearing Participant prescribed in Rule 24, Paragraph 2 of the Trading Participant Regulations; the same shall apply hereinafter.

(Note 2) A Designated Government Bond Futures, etc. Clearing Participant means a Government Bond Futures, etc. Agency Clearing Participant (meaning a party with Agency Clearing Qualification pertaining to Government Bond Futures, etc. Clearing Qualification (meaning the JGB Futures Clearing Qualification prescribed in the Business Rules of JSCC)) designated by such Government Bond Futures, etc. Non-Clearing Participant pursuant to the provisions of Rule 27, Paragraph 1 of the Trading Participant Regulations; the same shall apply hereinafter.

2. Where a Government Bond Futures, etc. Non-Clearing Participant has made the notification specified in the preceding paragraph, OSE shall receive from JSCC a notice of the close-out quantity and the resale and repurchase quantity pertaining to such notification.

#### **Rule 4-3. Settlement Price of Government Bond Futures Trading**

The settlement price of government bond futures transactions (in the case of mini contracts, the numerical value that is the settlement price) shall be the price specified by JSCC as the settlement price of government bond futures transactions (in the case of mini contracts, the numerical value).

#### **Rule 4-4. Payment/Receipt of Amount of Difference between Contract Price and Settlement Price**

With respect to government bond futures transactions (including transactions for error correction, etc.; the same shall apply hereinafter) based on entrustment of brokerage for clearing of securities, etc., where there is an amount of difference as a result of comparison between the contract price (meaning, in the case of mini contracts, the numerical value that is the contract price; the same shall apply in this section) and the settlement price on the trading day of the contract, a Government Bond Futures, etc. Non-Clearing Participant must pay to or receive from the Designated Government Bond Futures, etc. Clearing Participant the amount of money equivalent to such difference. In this case, the paying Government Bond Futures, etc. Non-Clearing Participant shall pay to the Designated Government Bond Futures, etc. Clearing Participant the amount of money equivalent to such difference no later than the date and time designated by the Designated Government Bond Futures, etc. Clearing Participant that is before the settlement cut-off time specified by JSCC.

**Rule 4-5. Payment/Receipt of Amount of Difference between Settlement Prices**

With respect to government bond futures transactions based on entrustment of brokerage for clearing of securities, etc., where there is an amount of difference as a result of comparison between the settlement price on the trading day and the settlement price on the preceding trading day, a Government Bond Futures, etc. Non-Clearing Participant shall pay to or receive from the Designated Government Bond Futures, etc. Clearing Participant the amount of money equivalent to such difference. In this case, the paying Government Bond Futures, etc. Non-Clearing Participant must pay the amount of money equivalent to such difference to the Designated Government Bond Futures, etc. Clearing Participant no later than the date and time designated by the Designated Government Bond Futures, etc. Clearing Participant that is before the settlement cut-off time specified by JSCC.

Rule 4-6. Deleted.

**Rule 4-7. Government Bonds to be Delivered/Received and Money to Be Paid/Received for Settlement by Delivery/Payment**

The quantity of government bonds to be delivered/received and the amount of money to be paid/received between a Government Bond Futures, etc. Non-Clearing Participant and the Designated Government Bond Futures, etc. Clearing Participant for settlement of large contracts shall be as specified in the provisions of each of the following items:

- (1) The quantity of government bonds shall be the difference between the final Clearing Brokerage Short Positions and the final Clearing Brokerage Long Positions; and
- (2) The amount of money shall be the amount of the consideration for settlement by delivery/payment with respect to deliverable bonds pertaining to a net quantity of government bonds as prescribed in the provisions of the preceding item.

**Rule 4-8. Delivery Cut-off Time for Settlement by Delivery/Payment**

For settlement of large contracts by delivery/payment, a Government Bond Futures, etc. Non-Clearing Participant shall deliver government bonds it has sold or pay the amount of its purchase consideration to the Designated Government Bond Futures, etc. Clearing Participant no later than the date and time designated by the Designated Government Bond Futures, etc. Clearing Participant that is before the settlement cut-off time specified by JSCC.

**Rule 4-9. Combination of Securities of Deliverable Grade**

Securities of deliverable grades for settlement of large contracts pertaining to settlement by delivery/payment may be combined in integral multiples of the trading unit per deliverable bond

as selected by the delivering Government Bond Futures, etc. Non-Clearing Participant.

**Rule 4-10. Notification of Securities of Deliverable Grade**

A delivering Government Bond Futures, etc. Non-Clearing Participant shall notify the Designated Government Bond Futures, etc. Clearing Participant of the issue and quantity provided for settlement of large contracts by delivery/payment by the date and time designated by the Designated Government Bond Futures, etc. Clearing Participant by deeming it necessary to effect settlement by delivery/payment.

**Rule 4-11. Postponement of Settlement Pertaining to Settlement by Delivery/Payment**

In the event that a Government Bond Futures, etc. Non-Clearing Participant is unable to deliver government bonds for settlement of large contracts by delivery/payment by the cut-off time for settlement by delivery/payment as prescribed in the provisions of Rule 4-8, and, in addition, that it has obtained approval of the Designated Government Bond Futures, etc. Clearing Participant, such Government Bond Futures, etc. Non-Clearing Participant may postpone the delivery of government bonds pertaining to such settlement by delivery/payment to the following day or thereafter pursuant to the provisions prescribed by OSE.

**Rule 4-12. Payment/Receipt of Money for Final Settlement**

In the event that there is a difference as a result of comparison between the final settlement price and the settlement price as of the last trading day with respect to the final settlement of mini contracts, a Government Bond Futures, etc. Non-Clearing Participant shall pay to or receive from the Government Bond Futures, etc. Clearing Participant the amount of money equivalent to such difference. In this case, a paying Government Bond Futures, etc. Non-Clearing Participant shall pay such amount to the Designated Government Bond Futures, etc. Clearing Participant no later than the date and time designated by the Designated Government Bond Futures, etc. Clearing Participant that is before the settlement cut-off time specified by JSCC.

**Rule 4-12-2. Special Provisions for Payment/Receipt of Money Pertaining to Remote Trading Participant**

1. If a Remote Trading Participant has agreed in advance with its customer (limited to those who belong to the same corporate group (meaning the corporate group prescribed in Article 5, Paragraph 1, Item 2 of the Act; the same shall apply hereinafter) as the Remote Trading Participant; the same shall apply hereinafter in this rule through Rule 14-2-4) and its Designated Clearing Participant, it will be able to make the customer and the Designated Clearing Participant pay/receive/deliver money (hereinafter referred to as "payment/receipt, etc. of money" in this rule and Rule 4-12-4) prescribed in Rule 4-4, Rule 4-5 and the preceding rule pertaining to trades

entrusted by the customer.

2. If such a customer has made payment/receipt, etc. of money to/from the Designated Clearing Participant pursuant to the provisions of the preceding paragraph, such payment/receipt, etc. of money shall be deemed as the payment/receipt, etc. of money pursuant to the provisions of Rule 4-4, Rule 4-5 and the preceding rule.

**Rule 4-12-3. Special Provisions for Settlement by Delivery/Payment Pertaining to Remote Trading Participant**

1. If a Remote Trading Participant has agreed in advance with its customer and Designated Clearing Participant, it will be able to make the customer and the Designated Clearing Participant conduct settlement by delivery/payment in large contracts entrusted by the customer according to the provisions of Rule 4-7 through Rule 4-11.
2. If such a customer has conducted settlement by delivery/payment with the Designated Clearing Participant pursuant to the provisions of the preceding paragraph, it shall be deemed that the settlement by delivery/payment has been conducted between the Remote Trading Participant and the Designated Clearing Participant.

**Rule 4-12-4. Understanding Status of Payment/Receipt, etc. of Money Pertaining to Customer of Remote Trading Participant**

A Remote Trading Participant that has agreed to the terms in Rule 4-12-2, Paragraph 1, or Paragraph 1 of the preceding rule must establish an arrangement to understand the status of payment/receipt, etc. of money or settlement by delivery/payment between the customer and the Designated Clearing Participant pertaining to the agreement.

**Section 1-2**

**Cross Margining**

**Rule 4-13. Offer pertaining to Application for Cross Margining, etc.**

1. In cases where a Government Bond Futures, etc. Non-Clearing Participant is a cross margining user and intends to make the whole or part of the position for government bond futures transactions for its own account subject to cross margining, it may, as specified by OSE, make an offer pertaining to the application for making the position for government bond futures transactions for its own account subject to cross margining to its Designated Government Bond Futures, etc. Clearing Participant by the date and time specified by the Designated Government Bond Futures, etc. Clearing Participant.
2. In cases where a customer of a Government Bond Futures, etc. Non-Clearing Participant is a

cross margining user and the Government Bond Futures, etc. Non-Clearing Participant has received an offer pertaining to the application for cross margining from the customer, the Government Bond Futures, etc. Non-Clearing Participant may, as specified by OSE, conduct the brokerage for the offer pertaining to the application for making the position for government bond futures transactions for the said customer's account subject to cross margining by the date and time specified by the Designated Government Bond Futures, etc. Clearing Participant.

3. Notwithstanding the provisions of the preceding two paragraphs, in the event that a Designated Government Bond Futures, etc. Clearing Participant may not apply for cross margining as specified by JSCC, a Government Bond Futures, etc. Non-Clearing Participant may not make an offer or conduct the brokerage for an offer pertaining to the application for cross margining to the Designated Government Bond Futures, etc. Clearing Participant.

**Rule 4-14. Application of Interest Rate Swap Clearing Business Rules Concerning JGB Futures Position Transfer, etc.**

1. A JGB Futures Position Transfer by a Government Bond Futures, etc. Non-Clearing Participant or its customer, either of which is a cross margining user, shall be as prescribed in the Interest Rate Swap Clearing Business Rules of JSCC.
2. The designation of a JGB Futures Backup Clearing Broker by a Government Bond Futures, etc. Non-Clearing Participant or its customer, either of which is a cross margining user, shall be as prescribed in the Interest Rate Swap Clearing Business Rules of JSCC.

**Section 1-3**

**Settlement of Index Futures Transactions**

**Rule 5. Notification of Close-out Quantity, etc.**

1. For each contract month of index futures, an Index Futures, etc. Non-Clearing Participant (see Note 1 below) shall notify its Designated Index Futures, etc. Clearing Participant (see Note 2 below) of the close-out quantity and the quantity of resale and repurchase in the event that a resale pertaining to Clearing Brokerage Long Positions or a repurchase pertaining to Clearing Brokerage Short Positions is executed, for each account managed by the Designated Index Futures, etc. Clearing Participant prescribed in the Business Rules of JSCC, no later than the cut-off time specified by such Designated Index Futures, etc. Clearing Participant that is before the cut-off time specified by JSCC; provided, however, that this shall not apply in cases where such Designated Index Futures, etc. Clearing Participant understands the details to be notified, or such Index Futures, etc. Non-Clearing Participant has made such notification to JSCC pursuant to the rules of JSCC.

(Note 1) An Index Futures, etc. Non-Clearing Participant means an Index Futures, etc. Non-Clearing Participant prescribed in Rule 24, Paragraph 3 of the Trading Participant Regulations; the same shall apply hereinafter.

(Note 2) A Designated Index Futures, etc. Clearing Participant means an Index Futures, etc. Agency Clearing Participant (meaning a party with Agency Clearing Qualification pertaining to Index Futures Clearing Qualification (meaning the Index Futures Clearing Qualification prescribed by the Business Rules of JSCC)) designated by such Index Futures, etc. Non-Clearing Participant pursuant to Rule 27, Paragraph 1 of the Trading Participant Regulations; the same shall apply hereinafter.

2. Where an Index Futures, etc. Non-Clearing Participant has made the notification specified in the preceding paragraph, OSE shall receive from JSCC a notice of the close-out quantity and the resale and repurchase quantity pertaining to such notification.

#### **Rule 6. Settlement Price**

The settlement price of index futures transactions shall be the price specified by JSCC as the settlement price of index futures transactions.

#### **Rule 7. Payment/Receipt of Money equivalent to Difference between Contract Price and Settlement Price**

With respect to index futures transactions (including transactions for error correction, etc.; the same shall apply hereinafter) based on entrustment of brokerage for clearing of securities, etc., where there is an amount of difference as a result of comparison between the contract price and the settlement price on the day of the contract, an Index Futures, etc. Non-Clearing Participant must pay to or receive from the Designated Index Futures, etc. Clearing Participant the amount of money equivalent to such difference. In this case, the paying Index Futures, etc. Non-Clearing Participant must pay to the Designated Index Futures, etc. Clearing Participant the amount of money equivalent to such difference no later than the date and time designated by the Designated Index Futures, etc. Clearing Participant that is before the settlement cut-off time specified by JSCC.

#### **Rule 8. Payment/Receipt of Amount of Difference between Settlement Prices**

With respect to index futures transactions based on entrustment of brokerage for clearing of securities, etc., where there is an amount of difference as a result of comparison between the settlement price as of the trading day and the settlement price as of the preceding trading day, an Index Futures, etc. Non-Clearing Participant shall pay to or receive from the Designated Index Futures, etc. Clearing Participant the amount of money equivalent to such difference. In this case, the paying Index Futures, etc. Non-Clearing Participant must pay the amount of money

equivalent to such difference to the Designated Index Futures, etc. Clearing Participant no later than the date and time designated by the Designated Index Futures, etc. Clearing Participant that is before the settlement cut-off time specified by JSCC.

**Rule 9. Payment/Receipt of Money for Final Settlement**

In the event that there is a difference as a result of comparison between the final settlement price and the settlement price as of the last trading day, an Index Futures, etc. Non-Clearing Participant shall pay to or receive from the Designated Index Futures, etc. Clearing Participant the amount of money equivalent to such difference on the final settlement date. In this case, the paying Index Futures, etc. Non-Clearing Participant must pay the money to the Designated Index Futures, etc. Clearing Participant no later than the date and time designated by such Designated Index Futures, etc. Clearing Participant that is before the settlement cut-off time specified by JSCC.

**Rule 9-2. Special Provisions for Payment/Receipt of Money Pertaining to Remote Trading Participant**

1. If a Remote Trading Participant has agreed in advance with its customer (limited to those who belong to the same corporate group as the Remote Trading Participant; the same shall apply hereinafter in this rule and the following rule) and its Designated Clearing Participant, it will be able to make the customer and the Designated Clearing Participant pay/receive/deliver money (hereinafter referred to as "payment/receipt, etc. of money" in this rule and the following rule) prescribed in Rule 7 through Rule 9 pertaining to trades entrusted by the customer.
2. If such a customer has made payment/receipt, etc. of money to/from the Designated Clearing Participant, such payment/receipt, etc. of money shall be deemed as the payment/receipt, etc. of money pursuant to the provisions from Rule 7 through Rule 9.

**Rule 9-3. Understanding Status of Payment/Receipt, etc. of Money Pertaining to Customer of Remote Trading Participant**

A Remote Trading Participant that has agreed to the terms in Paragraph 1 of the preceding rule must establish an arrangement to understand the status of payment/receipt, etc. of money between the customer and the Designated Clearing Participant pertaining to the agreement.

**Section 2****Settlement of Securities Options Transactions****Rule 10. Notification of Close-out Quantity, etc.**

1. For each issue of securities options, an Index Futures, etc. Non-Clearing Participant shall notify

its Designated Index, etc. Futures Clearing Participant of the close-out quantity and the quantity of resale and repurchase in the event that a resale pertaining to Clearing Brokerage Long Positions or a repurchase pertaining to Clearing Brokerage Short Positions is executed, for each account managed by the Designated Index Futures, etc. Clearing Participant prescribed in the Business Rules of JSCC, no later than the cut-off time specified by such Designated Index Futures, etc. Clearing Participant prescribed in the Business Rules of JSCC that is before the cut-off time specified by JSCC; provided, however, that this shall not apply in cases where such Designated Index Futures, etc. Clearing Participant understands the details to be notified, or such Index Futures, etc. Non-Clearing Participant has made such notification to JSCC pursuant to the rules of JSCC.

2. Where an Index Futures, etc. Non-Clearing Participant has made the notification specified in the preceding paragraph, OSE shall receive from JSCC a notice of the close-out quantity and the resale and repurchase quantity pertaining to such notification.

#### **Rule 11. Payment/Receipt of Option Premium**

Where a securities options transaction based on entrustment of brokerage for clearing of securities, etc. (including transactions for error correction, etc.; the same shall apply hereinafter) is effected, an Index Futures, etc. Non-Clearing Participant shall pay to or receive from the Designated Index Futures, etc. Clearing Participant the option premium. In this case, the paying Index Futures, etc. Non-Clearing Participant must pay money to the Designated Index Futures, etc. Clearing Participant no later than the date and time designated by such Designated Index Futures, etc. Clearing Participant that is before the settlement cut-off time specified by JSCC.

#### **Rule 12. Notification of Exercise of Options**

1. The exercise of securities options for Clearing Brokerage Long Positions of securities options transactions shall be executed by notification of an Index Futures, etc. Non-Clearing Participant to the Designated Index Futures, etc. Clearing Participant of the quantities pertaining to the exercise of options for each issue, classifying them into agency and proprietary accounts, no later than the cut-off time designated by the Designated Index Futures, etc. Clearing Participant that is before the cut-off time specified by JSCC; provided, however, that this shall not apply in cases where a customer has made the notification to the Designated Index Futures, etc. Clearing Participant pursuant to the provisions of Rule 14-2, Paragraph 1 of the Brokerage Agreement Standards, or an Index Futures, etc. Non-Clearing Participant makes such notification to JSCC pursuant to the rules of JSCC.
2. With respect to an issue which falls under each of the following items on the exercise day, even where notification of the exercise of options has not been given by the cut-off time of such day prescribed in the preceding paragraph, notification of such exercise of options in the preceding

paragraph shall be deemed to have been given; provided, however, that this shall not apply in cases where a customer or an Index Futures, etc. Non-Clearing Participant notifies to that effect that no exercise of options will be effected by such cut-off time:

- (1) A securities put option whose exercise price exceeds the option reference price (meaning the option reference price prescribed in the Business Rules of JSCC; the same shall apply hereinafter);
  - (2) A securities call option whose exercise price is lower than the option reference price.
3. An Index Futures, etc. Non-Clearing Participant having no Securities Clearing Qualification (meaning the Securities Clearing Qualification prescribed in the Business Rules of JSCC; the same shall apply hereinafter) and designating Participant different from the Designated Index Futures, etc. Clearing Participant as the Designated Securities Clearing Participant (meaning Securities Agency Clearing Participant (meaning Participant having Agency Clearing Qualification relating to Securities Clearing Qualification) designated by such Index Futures, etc. Non-Clearing Participant pursuant to Rule 27, Paragraph 1 of the Trading Participant Regulations; the same shall apply hereinafter in this section) must, when notification of an exercise of options pursuant to Paragraph 1 has been made (including when it shall be deemed that an exercise notice has been made pursuant to the preceding paragraph), so inform the Designated Securities Clearing Participant without delay.
  4. Where OSE deems it inappropriate to consider that notification of exercise of options has been given pursuant to the provisions of the main clause of Paragraph 2 due to any malfunction in the operation of the trading systems or any other unavoidable reason, such provisions of the main clause in the same paragraph shall not apply.
  5. In cases where an Index Futures, etc. Non-Clearing Participant gives notification of an exercise of options specified in Paragraph 1 (including the case where it is deemed that notification of an exercise of options is given pursuant to the provisions of Paragraph 2), OSE shall receive from JSCC a notice of details of the exercise pertaining to such notification.
  6. If a customer notifies a Designated Index Futures, etc. Clearing Participant of an exercise of options specified in Paragraph 1 (including cases where an exercise of options deems to have been notified pursuant to the provisions of Paragraph 2 and notification has been made that options will not be exercised) pursuant to the provisions of Rule 14-2, Paragraph 1 of Brokerage Agreement Standards, a Remote Trading Participant must establish an arrangement to understand the status of notification of exercise of options by the customer.

### **Rule 13. Notice concerning Assignment of Exercise of Options**

1. Where JSCC assigns exercise of options pertaining to Clearing Brokerage Short Positions as specified by JSCC, OSE shall receive from JSCC a notice of details pertaining to such assignment.

2. An Index Futures, etc. Non-Clearing Participant having no Securities Clearing Qualification and designating a party other than a Designated Index Futures, etc. Clearing Participant as the Designated Securities Clearing Participant must, when it receives an assignment of exercises of options pertaining to Clearing Brokerage Short Positions pursuant to the provisions of JSCC, notify to that effect to the Designated Securities Clearing Participant without delay.

**Rule 14. Handling of Transactions in Underlying Securities Resulting from Exercise**

In the event that transactions in underlying securities executed as a result of the exercise of securities options transactions pertain to Clearing Brokerage Short Positions or Clearing Brokerage Long Positions, these Regulations shall apply to such transactions in underlying securities executed as result of the exercise by deeming that such transactions are executed based on entrustment of brokerage for clearing of securities, etc.

**Rule 15. Settlement Cut-off Time for Exercise of Options**

With respect to transactions in underlying securities executed as a result of exercise, the settlement shall be made at the cut-off time specified by JSCC in cases where an Index Futures, etc. Non-Clearing Participant has Securities Clearing Qualification, and an Index Futures Non-Clearing Participant shall deliver the securities to be transferred and the money to be paid to the Designated Securities Clearing Participant no later than the time and date designated by such Designated Securities Clearing Participant that is before the settlement cut-off time stipulated by JSCC in cases where the Index Futures, etc. Non-Clearing Participant has no Securities Clearing Qualification.

**Rule 16. Delivery where DVP Settlement is Used**

1. In the event that DVP settlement pursuant to the Business Rules of the JASDEC DVP Clearing Corporation ("JDCC") is to be used by agreement between an Index Futures, etc. Non-Clearing Participant that has no Securities Clearing Qualification (hereinafter referred to as "Securities Non-Clearing Participant) and the Designated Securities Clearing Participant in underlying securities executed as a result of exercise, the Securities Non-Clearing Participant shall transfer the securities or pay the money to the JDCC no later than the settlement cutoff time stipulated by the JDCC (for the transfer of securities, this shall be a date and time designated by the Designated Securities Clearing Participant at the time of the agreement that is before the settlement cut-off time stipulated by JSCC).
2. In the event that a Securities Non-Clearing Participant transfers the securities or pays the money pursuant to the provisions of the preceding paragraph, such transfer of securities or payment of money shall be deemed as the delivery of securities or delivery of money enumerated in the preceding rule.

**Rule 17. Money and Securities to be Delivered or Received for Settlement**

1. The amount of money or quantity of securities to be delivered or received between the Securities Non-Clearing Participant and the Designated Securities Clearing Participant for the purpose of settlement of transactions in underlying securities executed as a result of exercise shall be as prescribed in the following item according to the classification stipulated in such item.

(1) Where the quantity of securities underlying one (1) unit of the securities option is equal to the quantity in a trading unit of such underlying securities.

In respect of the same Securities Clearing Participant on the same settlement day, the difference between the total amount of sales proceeds and the total amount of purchase money, and the difference between the quantity of securities sold and the quantity of securities purchased in respect of each issue.

(2) Where the quantity of securities underlying one (1) unit of the securities option is greater than the quantity in a trading unit of such underlying securities.

In transactions in underlying securities executed as a result of exercise, the Securities Non-Clearing Participant shall deliver, if it has purchased such underlying securities, the purchase money prescribed in (a), or if it has sold such underlying securities, the money prescribed in (b) and securities prescribed in (c).

(a) The purchase money of the transaction in underlying securities executed as a result of exercise (the amount calculated by multiplying the result of multiplying the exercise price by the quantity of securities underlying one (1) unit of the securities option (rounded down in the event that a fractional amount less than one (1) yen arises) by the quantity of the securities options exercised; the same shall apply in the following Item).

(b) Money equivalent to the amount calculated by multiplying the result of multiplying the quantity less than one (1) trading unit (meaning the quantity obtained by subtracting the quantity of an integral multiple of trading units of such underlying security from the quantity of securities underlying one (1) unit of the securities option that falls short of such trading unit; the same shall apply hereinafter in this Rule) by the option settlement price (rounded down in the event that a fractional amount less than one (1) yen arises; the same shall apply in the following Item) by the quantity of securities options exercised.

(c) The quantity of securities calculated by multiplying the quantity obtained by subtracting the quantity less than one (1) trading unit from the quantity of securities underlying one (1) unit of the securities option by the quantity of securities options exercised.

(3) Where the quantity of securities underlying one (1) unit of the securities option is less

than the quantity in a trading unit of such underlying securities.

In transactions in underlying securities executed as a result of exercise, the Securities Non-Clearing Participant shall deliver, if it has purchased such underlying securities, the purchase money prescribed in (a), or if it has sold such underlying securities, the money prescribed in (b).

- (a) The purchase money of the transaction in underlying securities executed as a result of exercise.
  - (b) Money equivalent to the amount calculated by multiplying the result of multiplying the quantity of securities underlying one (1) unit of the securities option by the option settlement price by the number of securities options exercised.
2. In transactions in underlying securities executed as a result of exercise, the amount of money to be paid or received pursuant to Item 2 (b) and Item 3 (b) of the preceding paragraph shall be included in the total purchase money prescribed in Item 1 of the preceding paragraph if the Securities Non-Clearing Participant has sold such underlying securities, or in the total sale money if it has purchased such underlying securities.

#### **Rule 18. Restriction on Deliverable Securities**

1. With respect to a delivery and a receipt of securities specified in the preceding rule, in cases where both old securities and new securities have been already listed or either of them has been already listed and the other has been determined to be listed, when the rights and obligations shall be the same and both shall be merged to trade, the settlement that comes after such trading begins shall be subject to the same treatment.
2. In the event that a Securities Non-Clearing Participant fails to deliver the securities by the cutoff time specified in Rule 15 concerning transactions in the underlying securities resulting from an exercise of options due to an unavoidable reason, it may postpone the delivery of such securities to the following day (to be moved down if such day falls on a non-business day (meaning a non-business day prescribed in Rule 19, Paragraph 1 including extraordinary non-business days in Paragraph 2 of the same rule; the same shall apply hereinafter); the same shall apply hereinafter) with an approval of the Designated Securities Clearing Participant.

#### **Rule 18-2. Special Provisions for Payment/Receipt of Option Premium Pertaining to Remote Trading Participant**

1. If a Remote Trading Participant has agreed in advance with its customer (limited to those who belong to the same corporate group as the Remote Trading Participant; the same shall apply hereinafter in this rule through Rule 18-2-3) and its Designated Index Futures, etc. Clearing Participant, it will be able to make the customer and the Designated Index Futures, etc. Clearing Participant pay/receive option premium and deliver money (hereinafter referred to as

"payment/receipt, etc. of option premium" in this rule and Rule 18-2-3) prescribed in Rule 11 pertaining to trades entrusted by the customer.

2. If such a customer has made payment/receipt, etc. of option premium to/from the Designated Index Futures, etc. Clearing Participant pursuant to the provisions of the preceding paragraph, such payment/receipt, etc. of option premium shall be deemed as the payment/receipt, etc. of option premium pursuant to the provisions of Rule 11.

**Rule 18-2-2. Special Provisions for Settlement of Trades in Underlying Securities Resulting from Exercising Options Pertaining to Remote Trading Participant**

1. If a Remote Trading Participant has agreed in advance with its customer and Designated Securities Clearing Participant, it will be able to make the customer and the Designated Securities Clearing Participant settle transactions in underlying securities executed as a result of the exercise of options pertaining to trades entrusted by the customer according to the provisions of Rule 15, Rule 17, and Rule 18.
2. If such a customer has settled transactions in underlying securities executed as a result of the exercise of options with the Designated Securities Clearing Participant pursuant to the provisions of the preceding paragraph, it shall be deemed that the settlement of transactions in underlying securities executed as a result of the exercise of options has been conducted between the Remote Trading Participant and the Designated Securities Clearing Participant.

**Rule 18-2-3. Understanding Status of Payment/Receipt, etc. of Option Premium/Money Pertaining to Customer of Remote Trading Participant**

A Remote Trading Participant that has agreed to the terms in Rule 18-2, Paragraph 1 or Paragraph 1 of the preceding rule must establish an arrangement to understand the status of (i) or (ii) pertaining to the agreement.

- (i) Payment/receipt, etc. of option premium between the customer and the Designated Index Futures, etc. Clearing Participant
- (ii) Settlement of transactions in underlying securities executed as a result of the exercise of options between the customer and the Designated Securities Clearing Participant

**Section 2-2**

**Settlement of Government Bond Futures Options Transactions**

**Rule 18-2-4. Notification of Close-out Quantity, etc.**

1. For each issue of government bond futures options, a Government Bond Futures, etc. Non-Clearing Participant shall notify its Designated Clearing Participant of the close-out quantity and the quantity of resale and repurchase in the event that a resale pertaining to Clearing

Brokerage Long Positions or a repurchase pertaining to Clearing Brokerage Short Positions is executed, for each account managed by the Designated Government Bond Futures, etc. Clearing Participant prescribed in the Business Rules of JSCC, no later than the cut-off time specified by such Designated Government Bond Futures, etc. Clearing Participant that is before the cut-off time specified by JSCC; provided, however, that this shall not apply in cases where such Designated Government Bond Futures, etc. Clearing Participant understands the details to be notified, or such Government Bond Futures, etc. Non-Clearing Participant has made such notification to JSCC pursuant to the rules of JSCC.

2. Where a Government Bond Futures, etc. Non-Clearing Participant has made the notification specified in the preceding paragraph, OSE shall receive from JSCC a notice of the close-out quantity and the resale and repurchase quantity pertaining to such notification.

### **Rule 18-3. Notification of Exercise of Options**

1. The exercise of options for Clearing Brokerage Long Positions of government bond futures options transactions (including transactions for error correction, etc.; the same shall apply hereinafter) shall be executed by notification of a Government Bond Futures, etc. Non-Clearing Participant to a Designated Government Bond Futures, etc. Clearing Participant of the quantities pertaining to the exercise of options for each issue, classifying them into agency and proprietary accounts, by the cut-off time specified by the Designated Government Bond Futures, etc. Clearing Participant that is before the settlement cut-off time specified by JSCC; provided, however, that this shall not apply, in cases where a customer has made the notification to the Designated Government Bond Futures, etc. Clearing Participant pursuant to the provisions of Rule 14-2, Paragraph 1 of the Brokerage Agreement Standards, or a Government Bond Futures, etc. Non-Clearing Participant makes such notification to JSCC pursuant to the rules of JSCC.
2. With respect to an issue which falls under any of the following items on the expiration date of the exercise period, even where notification of the exercise of options has not been given by the cut-off time of such day prescribed in the preceding paragraph, notification of such exercise of options shall be deemed to have been given; provided, however, that this shall not apply in cases where a customer or a Government Bond Futures, etc. Non-Clearing Participant notifies to the effect that no exercise of options will be effected by such cut-off time:
  - (1) A government bond futures put option whose exercise price exceeds the settlement price of the underlying government bond futures contract month on a trading day that ends on the expiration date of the exercise period;
  - (2) A government bond futures call option whose exercise price is lower than the settlement price of the underlying government bond futures contract month on a trading day that ends on the expiration date of the exercise period.
3. Where OSE deems it inappropriate to consider that notification of exercise of options has been

given pursuant to the provisions of the main clause of the preceding paragraph due to any malfunction in the operation of the trading systems or any other unavoidable reason, such provisions of the main clause in the same paragraph shall not apply.

4. In cases where a Government Bond Futures, etc. Non-Clearing Participant gives notification of an exercise of options as prescribed in Paragraph 1 (including cases where notification is deemed to have been given pursuant to the provisions in Paragraph 2), OSE shall receive from JSCC a notice of details about the exercise of options pertaining to such notification.
5. If a customer notifies a Designated Government Bond Futures, etc. Clearing Participant of an exercise of options specified in Paragraph 1 (including cases where an exercise of options deems to have been notified pursuant to the provisions of Paragraph 2 and notification has been made that options will not be exercised) pursuant to the provisions of Rule 14-2, Paragraph 1 of the Brokerage Agreement Standards, a Remote Trading Participant must establish an arrangement to understand the status of notification of exercise of options by the customer.

**Rule 18-4. Notice concerning Assignment of Exercise of Options**

Where JSCC assigns exercise of options pertaining to Clearing Brokerage Short Positions as specified by JSCC, OSE shall receive from JSCC a notice of details pertaining to such assignment.

**Rule 18-5. Treatment of Government Bond Futures Transactions by Exercise of Options of Clearing Brokerage Short Positions or Long Positions**

In cases where government bond futures transactions effected by an exercise of options in government bond futures options transactions pertains to Clearing Brokerage Short Positions or Clearing Brokerage Long Positions, these regulations shall apply by deeming that the government bond futures transactions effected by such exercise of options has been effected based on entrustment of brokerage for clearing of securities, etc.

**Rule 18-6. Payment/Receipt of Option Premiums**

Where a government bond futures options transaction based on entrustment of brokerage for clearing of securities, etc. is effected, a Government Bond Futures, etc. Non-Clearing Participant shall pay/receive the option premiums to/from the Designated Government Bond Futures, etc. Clearing Participant. In this case, a paying Government Bond Futures, etc. Non-Clearing Participant shall make payment to the Designated Government Bond Futures, etc. Clearing Participant by the date and time specified by the Designated Government Bond Futures, etc. Clearing Participant that is before the settlement cut-off time specified by JSCC.

**Rule 18-7. Special Provisions for Payment/Receipt of Option Premium Pertaining to Remote**

### **Trading Participant**

1. If a Remote Trading Participant has agreed in advance with its customer (limited to those who belong to the same corporate group as the Remote Trading Participant; the same shall apply hereinafter in this rule and the following rule) and its Designated Clearing Participant, it will be able to make the customer and the Designated Clearing Participant pay/receipt option premium and deliver money (hereinafter referred to as "payment/receipt, etc. of option premium" in this rule and the following rule) pertaining to trades entrusted by the customer.
2. If such a customer has made payment/receipt, etc. of option premium to/from the Designated Clearing Participant pursuant to the provisions of the preceding paragraph, such payment/receipt, etc. of option premium shall be deemed as the payment/receipt, etc. of option premium pursuant to the preceding rule.

### **Rule 18-8. Understanding Status of Payment/Receipt, etc. of Option Premium/Money**

#### **Pertaining to Customer of Remote Trading Participant**

A Remote Trading Participant that has agreed to the terms in Paragraph 1 of the preceding rule must establish an arrangement to understand the status of payment/receipt etc. of option premium between the customer and the Designated Clearing Participant pertaining to the agreement.

## **Section 3**

### **Settlement of Index Options Transactions**

#### **Rule 19. Notification of Close-out Quantity, etc.**

1. For each issue of index options, an Index Futures, etc. Non-Clearing Participant shall notify its Designated Index Futures, etc. Clearing Participant of the close-out quantity and the quantity of resale and repurchase in the event that a resale pertaining to Clearing Brokerage Long Positions or a repurchase pertaining to Clearing Brokerage Short Positions is executed, for each account managed by the Designated Index Futures, etc. Clearing Participant prescribed in the Business Rules of JSCC, no later than the cut-off time specified by such Designated Index Futures, etc. Clearing Participant that is before the cut-off time specified by JSCC; provided, however, that this shall not apply in cases where such Designated Index Futures, etc. Clearing Participant understands the details to be notified, or such Index Futures, etc. Non-Clearing Participant has made such notification to JSCC pursuant to the rules of JSCC.
2. In cases where an Index Futures, etc. Non-Clearing Participant makes the notification specified in the preceding paragraph, OSE shall receive from JSCC a notice of the close-out quantity and the resale and repurchase quantity pertaining to such notification.

#### **Rule 20. Payment/Receipt of Option Premium**

An Index Futures, etc. Non-Clearing Participant shall, when an index options transaction based on entrustment of brokerage for clearing of securities, etc. (including transactions for error correction, etc.; the same shall apply hereinafter) is effected, pay/receive the option premium to/from the Designated Index Futures, etc. Clearing Participant. In this case, the Index Futures, etc. Non-Clearing Participant making the payment must deliver the money to the Designated Index Futures, etc. Clearing Participant by the date and time designated by the Designated Index Futures, etc. Clearing Participant that is before the settlement cut-off time specified by JSCC.

**Rule 21. Notification of Exercise of Options**

1. The exercise concerning Clearing Brokerage Long Positions on index options transactions shall be carried out by the Index Futures, etc. Non-Clearing Participant notifying the Designated Index Futures, etc. Clearing Participant of the quantities pertaining to the exercise of options for each issue, classifying them into agency and proprietary accounts, by the cut-off time specified by the Designated Index Futures, etc. Clearing Participant that is before the cut-off time specified by JSCC; provided, however, that this shall not apply in cases where a customer has made the notification to the Designated Index Futures, etc. Clearing Participant pursuant to the provisions of Rule 14-2, Paragraph 1 of the Brokerage Agreement Standards, or an Index Futures, etc. Non-Clearing Participant makes such notification to JSCC pursuant to the provisions of JSCC.
2. An Index Futures, etc. Non-Clearing Participant may not give notification of the exercise in the preceding paragraph on the exercise date with respect to an issue which falls under the cases prescribed in the following items.
  - (1) An index put option whose exercise price is at the option settlement price or lower;
  - (2) An index call option whose exercise price is at the option settlement price or higher.
3. Notification of the exercise of options in Paragraph 1 relating to an issue which falls under any of the following items on the exercise date shall be deemed to have been given even if such notification of options is not given by the cut-off time on such day prescribed in the same paragraph; provided, however, that this shall not apply in cases where a customer or an Index Futures, etc. Non-Clearing Participant notifies to that effect that no exercise of options will be effected by such cut-off time.
  - (1) An index put option whose exercise price exceeds the option settlement price;
  - (2) An index call option whose exercise price is lower than the option settlement price.
4. In cases where an Index Futures, etc. Non-Clearing Participant gives notification of an exercise of options specified in Paragraph 1 (including the case where it is deemed that notification of an exercise of options is given pursuant to the provisions of the preceding paragraph), OSE shall receive from JSCC a notice of details of the exercise pertaining to such notification.
5. If a customer notifies a Designated Index Futures, etc. Clearing Participant of an exercise of

options specified in Paragraph 1 (including cases where an exercise of options deems to have been notified pursuant to the provisions of Paragraph 3 and notification has been made that options will not be exercised) pursuant to the provisions of Rule 14-2, Paragraph 1 of the Brokerage Agreement Standards, a Remote Trading Participant must establish an arrangement to understand the status of notification of an exercise of options by the customer.

**Rule 22. Notice concerning Assignment of Exercise of Options**

When JSCC carries out assignment of exercises of options pertaining to Clearing Brokerage Short Positions pursuant to JSCC's rules, OSE shall receive from JSCC a notice of details pertaining to such assignment.

**Rule 23. Handling of Transactions Resulting from Exercise of Clearing Brokerage Short Positions or Clearing Brokerage Long Positions**

In the event that transactions executed resulting from the exercise of index options transactions are related to Clearing Brokerage Short Positions or Clearing Brokerage Long Positions, these Regulations shall apply to such transactions executed resulting from the exercise by deeming that such transactions are executed based on entrustment of brokerage for clearing of securities, etc.

**Rule 24. Payment/Receipt of Money for Settlement on Exercise of Options**

When an exercise of options pertaining to Clearing Brokerage Short Positions or Clearing Brokerage Long Positions has been effected, an Index Futures, etc. Non-Clearing Participant shall pay/receive to/from its Designated Index Futures, etc. Clearing Participant the amount of money equivalent to the difference between the exercise price and the option settlement price. In such cases, an Index Futures Non-Clearing Participant making the payment must pay such amount of money to the Designated Index Futures, etc. Clearing Participant by the date and time designated by the Designated Index Futures, etc. Clearing Participant that is before the settlement cut-off time specified by JSCC.

**Rule 24-2. Special Provisions for Payment/Receipt of Money Pertaining to Remote Trading Participant**

1. If a Remote Trading Participant has agreed in advance with its customer (limited to those who belong to the same corporate group as the Remote Trading Participant; the same shall apply hereinafter in this rule and the following rule) and its Designated Clearing Participant, it will be able to make the customer and the Designated Clearing Participant pay/receive option premium and deliver money prescribed in Rule 20 pertaining to trades entrusted by the customer and pay/receive/deliver money prescribed in the preceding rule (hereinafter referred to as "payment/receipt, etc. of money" in this rule and the following rule).

2. If such a customer has made payment/receipt, etc. money to/from the Designated Clearing Participant pursuant to the provisions of the preceding paragraph, such payment/receipt, etc. of money shall be deemed as the payment/receipt, etc. of money pursuant to the provisions of Rule 20 or the preceding rule.

**Rule 24-3. Understanding Status of Payment/Receipt, etc. of Money Pertaining to Customer of Remote Trading Participant**

A Remote Trading Participant that has agreed to the terms in Paragraph 1 of the preceding rule must establish an arrangement to understand the status of payment/receipt etc. of money between the customer and the Designated Clearing Participant pertaining to the agreement.

**Section 4**

**Settlement of Exchange-FX Transactions**

**Rule 25. Position Notice**

1. An FX Non-Clearing Participant (meaning FX Non-Clearing Participants pursuant to Rule 24, Paragraph 4 of the Trading Participant Regulations; the same shall apply hereinafter) shall classify the number of long positions based on entrustment of agency clearing of securities, etc. relating to Exchange-FX Transactions (hereinafter referred to as "FX Clearing Brokerage Long Position") or the number of short positions based on entrustment of agency clearing of securities, etc. relating to Exchange-FX Transactions (hereinafter referred to as "FX Clearing Brokerage Short Position") according to agency and proprietary accounts, and notify the Designated FX Clearing Participant no later than the cut-off time prescribed by the Designated FX Clearing Participant (meaning FX Agency Clearing Participant (meaning Participant having Agency Clearing Qualification relating to FX Clearing Qualification (meaning the FX Clearing Qualification prescribed by the Business Rules of JSCC) designated by such FX Non-Clearing Participant pursuant to Rule 27, Paragraph 1 of the Trading Participant Regulations; the same shall apply hereinafter) that is before the time prescribed by JSCC; provided, however, that in the event of resale or repurchase, the number after reduction shall be notified as the number of such resale or repurchase relating to settlement.
2. A Non-Clearing Participant in FX transactions shall calculate and record the number for the notice in the preceding paragraph immediately after the trading session of each trading day (meaning the trading day prescribed in Rule 2, Item 15 of the Special Rules for Exchange-FX Transactions; the same shall apply hereinafter in this Section).
3. In case where an FX Non-Clearing Participant has made the notification specified in the preceding paragraph, OSE shall receive from JSCC the notification of the resale or the

repurchase relating to such notification.

**Rule 26. Settlement Price and Swap Point Standard Price**

1. The settlement price of Exchange-FX transactions shall be the price designated by JSCC as the settlement price of FX transactions.
2. The swap point standard price of Exchange-FX Transactions shall be the price prescribed by JSCC as the swap point price of Exchange-FX Transactions.

**Rule 27. Payment or Receipt of Initial Mark to the Market Result**

FX Non-Clearing Participants shall, if a difference arises between the contract price and the settlement price of the trading day on which such Exchange-FX transaction contract was executed in relation to an Exchange-FX Transaction based on entrustment of brokerage for clearing of securities, etc. (including transactions for error correction, etc.; the same shall apply hereinafter), and when a rollover (meaning the rollover of Rule 2, Item 17 of the Special Rules for Exchange-FX Transactions; the same shall apply hereinafter) of positions at the close of trading session is executed, pay to or receive from the Designated Clearing Participant in Exchange-FX Transactions money equivalent to the amount of such difference. In such cases, the Non-Clearing Participant in FX Transactions making the payment must deliver the money equivalent to the amount of such difference to the Designated Clearing Participant in FX Transactions no later than the date and time designated by such Designated Clearing Participant in FX Transactions that is before the settlement cut-off time prescribed by the rules of JSCC.

**Rule 28. Payment or Receipt of Net Difference from Previous Day**

FX Non-Clearing Participants shall, if a difference arises between the settlement price on the trading day which such positions rollover was executed at the close of trading session (excluding the case in the preceding rule) and the settlement price on the preceding trading day in relation to an FX transaction based on entrustment of brokerage for clearing of securities, etc., pay to or receive from the Designated FX Clearing Participant money equivalent to the amount of such difference. In such cases, the FX Non-Clearing Participant making the payment must deliver money equivalent to the amount of such difference to the Designated FX Clearing Participant no later than the date and time designated by such Designated FX Clearing Participant that is before the settlement cut-off time prescribed by the rules of JSCC.

**Rule 29. Delivery and Receipt of Swap Points**

FX Non-Clearing Participants shall, when a position rollover is executed at the close of trading session in relation to an FX transaction based on entrustment of brokerage for clearing of securities, etc., deliver to or receive from such Designated FX Clearing Participant the money

equivalent to the amount obtained by multiplying the swap point standard price of each financial index with the number of long positions relating to such rollover after reducing short positions (hereinafter referred to as "swap points") no later than the date and time designated by such Designated FX Clearing Participant that is before the settlement cut-off time prescribed by the rules of JSCC.

**Rule 30. Payment and Receipt of Settlement Balance, etc.**

FX Non-Clearing Participants shall, if resale or repurchase or final settlement of position was executed in an Exchange-FX transaction based on entrustment of brokerage for clearing of securities, etc., pay to or receive from the Designated FX Clearing Participant the money in accordance with the cases enumerated in the following items on the settlement day relating to the day on which such resale or repurchase was executed or on the final settlement day. In such cases, the FX Non-Clearing Participant must deliver such money to such Designated FX Clearing Participant no later than the date and time designated by such Designated FX Clearing Participant that is before the settlement cut-off time prescribed by the rules of JSCC.

- (1) When such position is a contract of the trading day of such resale or repurchase:  
Money equivalent to the difference between the contract price relating to such position and the contract price relating to such resale or repurchase
- (2) When such position is a contract of a trading day prior to the preceding trading day on which such resale or repurchase was executed:  
Money equivalent to the difference between the settlement price of the preceding trading day and the contract price relating to such resale or repurchase
- (3) When such position is a contract of the last trading day:  
Money equivalent to the difference between the contract price relating to such position and the final settlement price
- (4) When such position is a contract of a trading day prior to the trading day preceding the last trading day:  
Money equivalent to the difference between the settlement price of the preceding trading day and the final settlement price.

**Chapter 4**

**Clearing Margin and Transfer of Unsettled Contracts, etc.**

**Rule 31. Clearing Margin and Transfer of Unsettled Contracts**

1. Matters concerning clearing margin and transfer of unsettled contracts pertaining to government bond futures transactions, index futures transactions, securities options transactions, government bond futures options transactions, and index futures transactions (hereinafter referred to as

"futures and options transactions") shall be governed by the Rules on Margin and Transfer of Unsettled Contracts Pertaining to Futures/Options Contract.

2. Matters concerning clearing margins and transfer of unsettled contracts pertaining to Exchange-FX transactions shall be governed by the Rules on Margin and Transfer of Unsettled Transactions Pertaining to Exchange-FX Margin Trading.

## **Chapter 5**

### **Treatment of Unsettled Contracts**

#### **Section 1**

#### **Treatment of Unsettled Contracts in Cases of Obtainment of Clearing Qualification and Change in Designated Clearing Participant**

##### **Rule 32. Treatment of Unsettled Contracts in Cases of Obtainment of Clearing Qualification**

In cases where a Trading Participant that is a Non-Clearing Participant (meaning a Non-Clearing Participant prescribed in Rule 24, Paragraph 5 of the Trading Participant Regulations; the same shall apply hereinafter) newly obtains a clearing qualification (meaning Government Bond Futures, etc. Clearing Qualification, Index Futures Clearing Qualification, or FX Clearing Qualification; the same shall apply hereinafter), unsettled contracts of such Trading Participant (limited to those pertaining to such clearing qualification) based on entrustment of brokerage for clearing of securities, etc. shall be market derivatives contracts in the name of such Trading Participant on and after the obtainment of clearing qualification.

##### **Rule 33. Transfer of Unsettled Contracts in Cases of Change in Designated Clearing Participant**

1. In cases where, pursuant to Rule 27, Paragraph 3 of the Trading Participant Regulations, a Non-Clearing Participant changes the Designated Clearing Participant (meaning the Designated Clearing Participant prescribed in Paragraph 1 of the same rule; the same shall apply hereinafter), unsettled market derivatives contracts of such Non-Clearing Participant based on entrustment of brokerage for clearing of securities, etc. shall be, on and after the change, market derivatives contracts based on entrustment of brokerage for clearing of securities, etc. to the Designated Clearing Participant after the change.
2. In cases where a Clearing Participant becomes a Non-Clearing Participant, the provisions of the preceding paragraph shall apply mutatis mutandis to the case where the designation of Designated Clearing Participant is made pursuant to Rule 27, Paragraph 3 of the Trading Participant Regulations. In this case "unsettled market derivatives contracts of such Trading Participants based on entrustment of brokerage for clearing of securities, etc." shall be read as

"unsettled contracts out of the transactions of a party that becomes a Non-Clearing Participant" and "Designated Clearing Participant after the change" shall be read as "a party that has been newly designated as a Designated Clearing Participant".

## Section 2

### **Treatment of Unsettled Contracts in Cases of Suspension of Market Transactions of Derivatives or Suspension of Entrustment of Brokerage for Clearing of Securities, etc.**

#### **Rule 34. Measures against Trading Participants that are Suspended from Market**

##### **Transactions of Derivatives by Application for Waiver of Trading Qualification**

If OSE suspends market transactions of derivatives (excluding transactions based on entrustment of brokerage for clearing of securities, etc.; the same shall apply hereinafter in this section) or entrustment of brokerage for clearing of securities, etc. in accordance with the provisions of Rule 35, Paragraph 1 of the Trading Participant Regulations, OSE may cause such applicant for waiver of trading qualification to transfer market transactions of derivatives or transactions based on entrustment of brokerage for clearing of securities, etc. and transactions related thereto of such applicant for waiver of trading qualification on the OSE markets to another Trading Participant or to make other arrangements that OSE deems necessary.

#### **Rule 35. Settlement of Unsettled Market Derivatives Contracts of Parties Having Waived Trading Qualification**

1. In cases where a party that has waived its trading qualification has unsettled market derivatives contracts or the contracts based on entrustment of brokerage for clearing of securities, etc. pertaining to the type of such trading qualification on the OSE markets that are unsettled, OSE shall cause such party itself or its general successor to undertake settlement thereof; provided, however, that if OSE considers it inappropriate to cause such party itself or its successor to undertake settlement, OSE may cause another Trading Participant to do so.
2. In the cases enumerated in the preceding paragraph, OSE may, when it deems necessary, cause another Trading Participant to take over market transactions of derivatives or transactions based on entrustment of brokerage for clearing of securities, etc. and transactions related thereto on the OSE markets pertaining to the type of such trading qualification that are unsettled or make other arrangements that OSE deems necessary.
3. OSE may, when it deems necessary, cause another Trading Participant to make the arrangement prescribed in the preceding paragraph. In such cases, an entrustment agreement shall be deemed to have been executed between such Trading Participant and the Trading Participant that is subject to suspension from market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. enumerated in the same paragraph.

**Rule 36. Measures against Trading Participants that are Suspended from Market****Transactions of Derivatives due to Insolvency**

1. In the event that OSE suspends a Trading Participant from market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets in accordance with the provisions of Rule 43, Paragraph 3 of the Trading Participant Regulations, or suspends from market transactions of derivatives as a result of being subject to measures to have its clearing qualification revoked or to suspend it from assumption of obligations (limited to suspension from assumption of obligations as a result of making a public notice of insolvency or abolition of financial instruments business, or of breaching improvement instructions (meaning instructions for improvement of its position holding pursuant to the provisions of Business Rules of JSCC; the same shall apply hereinafter)) under the Business Rules of JSCC in accordance with the provisions of Rule 47, Paragraph 1 of the Trading Participant Regulations, OSE may cause such Trading Participant to transfer market transactions of derivatives or transactions under entrustment of brokerage for clearing of securities, etc. and transactions related thereto of such Trading Participant on the OSE markets that are unsettled to another Trading Participant or to make other arrangements that OSE deems necessary.
2. The provisions of Paragraph 3 of the preceding rule shall apply mutatis mutandis in cases where OSE causes a Trading Participant. to make the arrangement pursuant to the preceding paragraph.

**Rule 37. Measures against Non-Clearing Participants in Cases that Designated Clearing Participant has its Clearing Qualification Waived**

1. In the event that OSE suspends a Trading Participant that is a Non-Clearing Participant from entrustment of brokerage for clearing of securities, etc. in accordance with the provisions of Rule 48, Paragraph 1 of the Trading Participant Regulations as a result of the Designated Clearing Participant of such Non-Clearing Participant being subject to revocation of its clearing qualification or suspension from assumption of obligations (limited to suspension from assumption of obligations as a result of making a public notice of insolvency or abolition of financial instruments business, or of breaching improvement instructions) under the Business Rules of JSCC, OSE may cause such Trading Participant that is a Non-Clearing Participant to transfer market transactions of derivatives, transactions based on entrustment of brokerage for clearing and transactions related thereto of such Trading Participant that is a Non-Clearing Participant on the OSE markets that are unsettled to another Trading Participant or to make other arrangements that OSE deems necessary.
2. The provisions of Rule 35, Paragraph 3 shall apply mutatis mutandis in cases where OSE causes a Trading Participant to make the arrangement pursuant to the preceding paragraph.

**Rule 38. Measures against Trading Participants that are Subject to Suspension from or Restriction on Market Transactions of Derivatives on the OSE Markets**

In the event that the disciplinary action, regulatory disposition or action taken by OSE against a Trading Participant under the Trading Participant Regulations is suspension from or restriction on market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets (excluding cases to which the provisions of Rule 34, Rule 36 or the preceding rule apply), such Trading Participant may, with approval of OSE, during the period thereof, transfer to another Trading Participant such Trading Participant's market transactions of derivatives or transactions based on entrustment of brokerage for clearing of securities, etc. and transactions relating thereto on the OSE markets that are unsettled.

**Section 2-2**

**Transfer of Unsettled Contracts in Cases of Receiving Instructions for Improvement of Position Holding**

**Rule 39. Transfer of Unsettled Contracts in Cases where Trading Participant that is Government Bond Futures, etc. Clearing Participant, Index Futures, etc. Clearing Participant or FX Clearing Participant Receives Improvement Instruction**

1. In cases where a Trading Participant that is a Government Bond Futures, etc. Clearing Participant, Index Futures, etc. Clearing Participant, or FX Clearing Participant receives an improvement instruction, unsettled contracts in futures and options transactions or Exchange-FX Transactions may be transferred to another Trading Participant with the approval of JSCC and consent of such other Trading Participant.
2. In the cases enumerated in the preceding paragraph, if the unsettled contracts to be transferred are those for customers' accounts, such Trading Participant that is a Government Bond Futures, etc. Clearing Participant, Index Futures, etc. Clearing Participant, or FX Clearing Participant shall obtain the consent of such customers for such transfer of unsettled contracts.

**Section 3**

**Transfer of Unsettled Contracts in Cases of Demerger or Transfer of Business**

**Rule 40. Transfer of Unsettled Contracts in Cases of Demerger or Transfer of Business**

1. In the event that a Trading Participant takes over or transfers its business to another Trading Participant as a result of demerger, if such Trading Participant does not waive its trading qualification at the same time as such takeover or transfer of business, it may, with the approval

of OSE, transfer unsettled contracts in market transactions of derivatives relating to such takeover or transfer of such business to such other Trading Participant.

2. In the cases enumerated in the preceding paragraph, if the unsettled contracts to be transferred are those for customers' accounts, such Trading Participant shall obtain the consent of such customers for such transfer of unsettled contracts.

## **Chapter 6**

### **Miscellaneous Provisions**

#### **Rule 41. Emergency Measures in Cases of Natural Disaster, etc.**

1. If OSE considers that the settlement by Non-Clearing Participants of market transactions of derivatives based on entrustment of brokerage for clearing of securities, etc. on the OSE markets is impossible or extremely difficult due to a natural disaster, extreme change in the economic situation, supply shortage or other unavoidable reason, OSE may stipulate new settlement conditions for such transactions by resolution of the Board of Directors.
2. If OSE stipulates settlement conditions therefor pursuant to the preceding paragraph, Non-Clearing Participants must follow such stipulations.
3. In the cases enumerated in Paragraph 1, OSE may stipulate new settlement conditions without resolution of the Board of Directors when urgently necessary.

#### **Rule 42. Change in Securities of Deliverable Grade for Government Bond Futures Trading, etc.**

Where OSE deems that it is difficult for a Government Bond Futures, etc. Non-Clearing Participant to carry out settlement of large contracts by delivery/payment pertaining to large contracts on the basis of entrustment of brokerage for clearing of securities, etc. in view of the status of short or long positions, etc., OSE may take measures for changing the securities of deliverable grade or the date of delivery/payment settlement for such large contracts.

#### **Rule 43. Determination of Necessary Matters concerning Clearing and Settlement of Market Transactions of Derivatives**

OSE may, in addition to the matters provided in these Regulations, prescribe regulations regarding the required interpretation thereof if necessary concerning clearing and settlement of market transactions of derivatives on the OSE markets.

## **Brokerage Agreement Standards**

(As of April 1, 2018)

Osaka Exchange, Inc.

### **Chapter 1**

#### **General Provisions**

##### **Rule 1. Purpose**

1. Agreements concerning brokerage of market transactions of derivatives (excluding brokerage for clearing of securities, etc.) on financial instruments exchange markets established by Osaka Exchange, Inc. (hereinafter referred to as "OSE") shall be as specified in these Standards; provided, however, that matters concerning exchange foreign exchange margin transactions (meaning, among those referred to in Rule 2, Paragraph 21, Item 2 of the Financial Instruments and Exchange Act (Act No.25 of 1948; hereinafter referred to as the "Act") transactions relating to the price of currency) shall be governed by these Standards and the Special Rules for Business Regulations and Brokerage Agreement Standards Relating to Exchange Foreign Exchange Margin Trading.
2. Amendments to these Standards shall be made by resolution of the Board of Directors; provided, however, that this shall not apply in cases of minor amendments.

##### **Rule 2. Duty to Comply with Standards**

Customers and Trading Participants (meaning Futures, etc. Trading Participants prescribed in Rule 2, Paragraph 2 of the Trading Participant Regulations and Government Bond Futures, etc. Trading Participants prescribed in Paragraph 3 of the same rule; the same shall apply hereinafter) shall peruse these Standards and agree to comply therewith in executing all transactions.

##### **Rule 3. Definitions of Terms**

1. The meanings of the terms used in the Business Regulations shall apply to these Standards.
2. The meanings of the terms pertaining to cross margining used in these Standards shall be as prescribed in the Business Rules of Japan Securities Clearing Corporation (hereinafter referred to as "JSCC"), unless otherwise prescribed in these Standards.

### **Chapter 2**

#### **Conditions for Acceptance of Entrustment of Market Transactions of Derivatives, etc.**

**Rule 4. Matters to be Notified by Customer**

A customer who entrusts market transactions of derivatives with a Trading Participant shall notify such Trading Participant in advance of the matters enumerated in the following items.

- (1) Name or business name
- (2) Address or location of office
- (3) If a specific place for receiving communications is stipulated, such place
- (4) If an agent is appointed, the name or business name, and the address or location of office thereof as well as the powers assigned thereto.

**Rule 5. Setting Up Futures/Options Trading Account**

1. When a customer intends to set up a futures/options trading account upon entrustment of market transactions of derivatives, such customer shall make an application to a Trading Participant and obtain its approval.
2. When a customer who has obtained the approval of a Trading Participant for the application as referred to in the preceding paragraph, the customer shall complete the prescribed matters in the Agreement for Setting up Futures/Options Trading Account in the form specified by OSE, put the customer's signature and/or seal thereon and submit it to the Trading Participant.
3. For the application of the provisions of the preceding two paragraphs to a case where market transactions of derivatives that the customer intends to entrust pertain to give-up, the term "Trading Participant" shall be read as "Order Execution Trading Participant and Clearing Execution Trading Participant"; provided, however, that if the customer intends to entrust market transactions of derivatives pertaining to give-up pursuant to the provisions of Paragraph 3 of the following rule, the customer of the Order Execution Trading Participant shall set up a futures/options trading account with said Order Execution Trading Participant, and the customer of the Clearing Execution Trading Participant shall set up a futures/options trading account with said Clearing Execution Trading Participant.
4. A customer may, instead of submitting the agreement pursuant to the provisions of Paragraph 2 (including the case where the term "Trading Participant" is read as "Order Execution Trading Participant and Clearing Execution Trading Participant" in the preceding paragraph), in the case where such customer has been presented by a Trading Participant with the type and details of the electromagnetic means (meaning means using an electronic information processing facilities or any other information and communications technology that is similar to the means stipulated in Rule 57-3 of the Cabinet Office Ordinance on Financial Instruments Business, etc.; the same shall apply hereinafter in this paragraph and the following paragraph) to be employed and gives

approval to the Trading Participant in writing or by electromagnetic means, notify the Trading Participant of his/her approval to the contents of such agreement by electromagnetic means. In this case, such customer shall be deemed to have submitted such agreement to the Trading Participant.

5. A Trading Participant that has obtained approval pursuant to the provisions of the preceding paragraph, when the customer notifies the Trading Participant in writing or by electromagnetic means that such customer will not submit the notification by electromagnetic means, such Trading Participant shall not accept the notification from such customer by electromagnetic means pursuant to the provisions of the preceding paragraph; provided, however, that this shall not apply in the case where such customer again gives such approval.

#### **Rule 6. Conclusion of Agreement pertaining to Give-up**

1. If a customer intends to entrust market transactions of derivatives pertaining to give-up, such customer shall conclude a three-party agreement concerning acceptance of entrustment of market transactions of derivatives pertaining to give-up with the Order Execution Trading Participant and the Clearing Execution Trading Participant.
2. The agreement referred to in the preceding paragraph shall stipulate the matters enumerated in the following items:
  - (1) The amount of the brokerage commission, the party collecting it and the method of collection thereof.
  - (2) Handling in the case where a notification referred to in Rule 44, Paragraph 1, Item 2 is received (including where a notification referred to in Paragraph 1, Item 2 of the same rule is deemed to have been received pursuant to the provisions of Paragraph 2 of the same rule).
3. Notwithstanding the provisions of Paragraph 1, in the case where the customer of the Order Execution Trading Participant or the customer of the Clearing Execution Trading Participant is a trading broker (meaning the customer in the case where the customer entrusting market transactions of derivatives to the Order Execution Trading Participant is a financial instruments business operator or foreign securities broker, and where such entrustment is broking of entrustment of market transactions of derivatives to the Order Execution Trading Participant; the same shall apply hereinafter in this paragraph) or a settlement broker (meaning the customer in the case where the customer entrusting the settlement of market transactions of derivatives to the Clearing Execution Trading Participant is a financial instruments business operator or foreign securities broker, and where such entrustment is broking of entrustment of settlement of market transactions of derivatives to the Clearing Execution Trading Participant; the same shall apply

hereinafter in this paragraph) and such customer's entrustment of the market transactions of derivatives pertaining to give-up to the Order Execution Trading Participant or the Clearing Execution Trading Participant is broking of entrustment from another party, if such customer has concluded an agreement equivalent to the agreement stipulated in the preceding paragraphs with the parties stipulated in the following items, the Order Execution Trading Participant and the Clearing Execution Trading Participant may accept entrustment of the market transactions of derivatives pertaining to give-up:

- (1) In the case where the customer of the Order Execution Trading Participant is a trading broker, the said other party and the Clearing Execution Trading Participant (or, where the customer of the Clearing Execution Trading Participant is a settlement broker, the said customer).
- (2) In the case where the customer of the Clearing Execution Trading Participant is a settlement broker, the said other party and the Order Execution Trading Participant (or, where the customer of the Order Execution Trading Participant is a trading broker, the said customer).

**Rule 7. Acceptance of Orders from Customers Residing in the United States of America**

If a Trading Participant intends to accept orders for securities options contracts and index options contracts from a customer residing in the United States of America, the Trading Participant shall receive the written confirmation predetermined by OSE stating the matters deemed necessary by OSE from the said customer in advance.

**Rule 8. Restrictions of Transactions by Customers**

1. Where entrusting transactions in securities options pertaining to the same underlying securities to Trading Participants (including, where said customer has set up a futures/ options trading account with another Trading Participant, said other Trading Participant), customers may not make orders for new sales or new purchases, or resales or repurchases that would bring the volume enumerated in the following items on their own account to more than the limits provided in Paragraph 4. In such cases, if the securities options for said underlying securities are subject to securities options transactions on a financial instruments exchange market established by another domestic financial instruments exchange, the position for said securities options transactions shall include the volumes enumerated in the following items:
  - (1) The difference between the total short position and the total long position in securities put options.
  - (2) The difference between the total short position and total long position in securities call

options.

- (3) Where the total short position exceeds the total long position in one of the differences referred to in the preceding two items and the total long position exceeds the total short position in the other, the amount of the difference in Item 1 added to the difference in the preceding item.
2. Notwithstanding the provisions of each item of the preceding paragraph, where said underlying securities are owned, and in other cases, if OSE considers that risks that may arise due to changes in the price of said underlying securities are eliminated or reduced with respect to some or all of the volume referred to in the preceding paragraph, that said portion or all of the volume.
3. Where the customer is a financial instruments business operator that is a member of the Japan Securities Dealers Association or a foreign company that carries out business similar to financial instruments business in a foreign country and said customer declares to OSE through the Trading Participant that the orders for securities options transactions pertaining to said customer are for the account of two (2) or more parties and OSE accepts this, the provisions of Paragraph 1 shall not apply. In such cases, said customer may not entrust to the Trading Participant new sales or new purchases or resales or repurchases that would bring the volume described in Paragraph 1 for the said customer's own account (or, where the preceding paragraph applies, this volume less the volume stipulated in that Paragraph; the same shall apply hereinafter in this paragraph), or the volume described in Paragraph 1 on the account of any single party other than said customer to more than the limits provided in the following paragraph.
4. The upper limit prescribed in Paragraph 1 and the preceding paragraph shall be trading units (rounding down the figures less than 100 units) constituting the number of securities equivalent to 1% (0.7% for underlying securities whose total annual trading volume on the financial instruments exchange markets established by the exchange listing the underlying security for a period of one year ending on March 31 (hereinafter in this paragraph referred to as the "base date") (or an amount specified by OSE on a case-by-case basis in consideration of the recent trading volume of the underlying security if the listing date of the underlying security is certain day on and after the following day (to be moved down if such day falls on a non-business day; the same shall apply hereinafter) of the corresponding date of the base date in the previous year) is less than 10% of the number of listed securities) of the number of listed securities (meaning, if the listing date of the underlying security is certain day on and after the following day of the corresponding date of the base date in the previous year, the number of shares listed as of a date stipulated on a case-by-case basis by OSE, and if, where the position has been

adjusted pursuant to the provisions of the Business Rules of JSCC due to a stock split or gratis allotment of shares on the base date, new securities have not been issued, the amount of said new securities is to be added) of the number of listed shares of the underlying security as of the base date, and such upper limit shall be, in principle, valid for a period of one year starting on the base date or later date specified from time to time by OSE.

5. Notwithstanding the provisions of the preceding paragraph, in cases where OSE deems it necessary in view of the circumstances in which there was a change in the position pursuant to the Business Rules of JSCC, the current status of trading in the underlying security, etc., OSE may determine the upper limit on a case-by-case basis in consideration of the number of listed shares of the underlying security, trading units, and other matters.

#### **Rule 9. Instructions when Entrusting Transactions**

1. When entrusting market transactions of derivatives, a customer shall instruct the Trading Participant, on each occasion, about the matters enumerated in the following items; provided, however, that in the case where the Trading Participant agrees to settle the market transactions of derivatives in accordance with the method designated in advance by the customer, the instruction referred to in Item 2 shall be deemed to have been given:
  - (1) The matters in each of the said following classification according to the classification of the market transactions of derivatives in the following a. to e.
    - a. Government bond futures contracts
      - (a) Issue
      - (b) Contract month
    - b. Index futures contracts
      - (a) Underlying index
      - (b) Large contract or mini contract for index futures contracts on Nikkei Average and TOPIX
      - (c) Contract month
    - c. Securities options contracts
      - (a) Underlying security
      - (b) Quantity of an underlying security for one trading unit of the securities option
      - (c) Securities put option or securities call option
      - (d) Contract month
      - (e) Exercise price
    - d. Government bond futures options contracts
      - (a) Underlying issue of the government bond futures contract effected by exercise

- (b) Government bond put option or government bond call option
  - (c) Contract month
  - (d) Exercise price
  - e. Index options contracts
    - (a) Underlying index
    - (b) Index put option or index call option
    - (c) Contract month
    - (d) Exercise price
  - (2) New sale or new purchase, or resale or repurchase
  - (3) In the case of strategy trading, instruction to that effect
  - (4) Quantity
  - (5) Limit of price (or limit of strategy price in the case of strategy trading)
  - (6) Conditions for validity or executed volume
  - (7) When adding conditions to bids and offers, the condition
  - (8) Trading hours
  - (9) Validity period of customer's order
  - (10) In the case where such entrustment is one pertaining to low latency trading (meaning low latency trading prescribed in Article 2, Paragraph 41 of the Act; the same shall apply hereinafter), to that effect.
2. Notwithstanding the provisions of the preceding paragraph other than those enumerated in each item, where agreed between the customer and the Trading Participant, the customer may give instructions regarding the matter enumerated in Item 2 of the preceding paragraph no later than a time stipulated by the Trading Participant that is before 6:30 p.m. on the day on which the trading day on which such transaction is entrusted ends.
  3. In the case referred to in the preceding paragraph, if the customer fails to give the instruction referred to in the preceding paragraph to the Trading Participant by the time stipulated in the preceding paragraph, the instruction for a new sale or new purchase shall be deemed to have been given.
  4. When a customer entrusts market transactions of derivatives pertaining to low latency trading, the customer shall give the Trading Participant, for each instance, instruction on the trading strategy specified separately by OSE.

**Rule 10. Matters to be Instructed at Time of Entrustment of Market Transactions of Derivatives pertaining to Give-up**

1. When a customer entrusts market transactions of derivatives pertaining to give-up, such

customer shall give the Order Execution Trading Participants instructions enumerated in the following items in addition to the instructions enumerated in each Item (excluding Item 2) of Paragraph 1 of the preceding rule on each occasion:

- (1) Instruction to the effect that it is a market transaction of derivatives pertaining to give-up;
  - (2) The name of the Designated Clearing Execution Trading Participant;
  - (3) Matters necessary for the Designated Clearing Execution Trading Participant to confirm which customer conducts the market transactions of derivatives pertaining to give-up.
2. Notwithstanding the provisions of the preceding paragraph, where agreed between the customer and the Order Execution Trading Participant and the Designated Clearing Execution Trading Participant, the customer may give the instructions referred to in the preceding paragraph no later than a time stipulated by the Order Execution Trading Participant that is before 4:45 p.m. on the day on which the trading day on which such transaction is entrusted ends; provided, however, that, for securities options contracts and government bond futures options contracts, in the event that such day is the last trading day, for the contract month whose last trading day has arrived, the customer shall give such instructions no later than a time stipulated by the Order Execution Trading Participant that is before 4:00 p.m.
3. In the event that give-up is executed pursuant to the provisions of Rule 42, Paragraph 2, notwithstanding the provisions of the proviso to Paragraph 1 and Paragraph 2 of the preceding Rule, the customer shall give the Clearing Execution Trading Participant instructions enumerated in Paragraph 1, Item 2 of the preceding rule in relation to market transactions of derivatives newly arising pursuant to the provisions of Rule 42, Paragraph 3 no later than a time stipulated by the Clearing Execution Trading Participant that is before 5:15 p.m. on the day on which the trading day on which such transaction is entrusted ends; provided, however, that, for securities options contracts and government bond futures options contracts, in the event that such day is the last trading day, for the contract month whose last trading day has arrived, the customer shall give such instructions no later than a time stipulated by the Clearing Execution Trading Participant that is before 4:30 p.m.
4. In the event that the market transactions of derivatives a customer intends to entrust pertain to give-up, the provisions of the proviso to Paragraph 1 of the preceding rule (excluding the term "provided, however, that"; the same shall apply hereinafter) and Paragraph 2 and Paragraph 3 of the same Rule shall apply mutatis mutandis. In such cases, the term "Trading Participant" in the proviso to Paragraph 1, Paragraph 2 and Paragraph 3 shall be read as "Clearing Execution Trading Participant", the terms "Item 2" in the proviso to Paragraph 1, "the preceding

paragraph" in Paragraph 2 and "the preceding paragraph" in Paragraph 3 shall be read as "Paragraph 1, Item 2 of the preceding Rule," "Paragraph 1 of the preceding Rule" and "Paragraph 2 of the preceding Rule" respectively.

5. In the event that a sale or purchase of the market transactions of derivatives pertaining to give-up is extinguished pursuant to the provisions of Rule 42, Paragraph 3, the entrustment between the customer and the Order Execution Trading Participant with respect to such market transactions of derivatives shall be terminated and at the same time, a new entrustment pertaining to settlement shall arise between the customer and the Clearing Execution Trading Participant with respect to the sale or purchase of the market transactions of derivatives that newly arises pursuant to the provisions of the same paragraph.

**Rule 11. Effectiveness of Customer's Order at Resumption of Trading**

A customer's order shall remain effective during the duration of said order instructed by the customer pursuant to the provisions of Rule 9, Paragraph 1. Item 9 even in the event that OSE suspends transactions in market transactions of derivatives in said period; provided, however, that this shall not apply if the customer has given the instruction to cancel such order in such cases.

**Rule 11-2. Instructions at the Time of Government Bond Futures Transactions Executed by Exercise, etc.**

1. A customer who has entrusted with a Trading Participant exercise of a government bond futures options contract or a customer to whom exercise thereof has been assigned shall at each occasion give the Trading Participant an instruction specified in Rule 9, Paragraph 1, Items 2 with respect to a government bond futures transaction in each contract month executed by exercise.
2. The provisions of the proviso to Rule 9, Paragraph 1 shall be applied mutatis mutandis to the instructions prescribed in Paragraph 1, Item 2 of the same rule pertaining to the government bond futures transaction executed by exercise.
3. Notwithstanding the provisions of Paragraph 1, a customer may, with a prior agreement with a Trading Participant, give the instruction enumerated in Rule 9, Paragraph 1, Item 2 pertaining to government bond futures transactions executed by exercise by the cut-off time which the Trading Participant specifies no later than 6:50 p.m. of the day on which the trading day when the contract was executed ends. In such cases, if the customer fails to give any instruction pertaining to the relevant matters by the designated time, it shall be deemed that the customer has given an instruction for a new sale or purchase.

**Rule 11-3. Instructions at the Time of Entrustment Pertaining to Market Transactions of Derivatives Effected Through Position Transfer, etc.**

1. Notwithstanding the provisions of Rule 9, with respect to market transactions of derivatives effected through position transfer, a customer shall give instructions per market derivatives contract month only for the matters referred to in Paragraph 1, Item 2 of the same rule pertaining to sales or purchases of government bond futures contracts by the cut-off time which the Trading Participant specifies no later than 4:30 p.m. of the day on which the trading day when the transaction pertaining to the position transfer that was effected ends. In such cases, if the customer fails to give such instruction by the time designated by the Trading Participant, it shall be deemed that the customer has given an instruction for a new sale or purchase.
2. The provisions of the proviso to Rule 9, Paragraph 1 shall be applied mutatis mutandis to the instruction prescribed in the preceding paragraph pertaining to market transactions of derivatives effected through position transfer.
3. Notwithstanding the provisions of Rule 10 and the preceding two paragraphs, in cases where a customer conducts give-up for market transactions of derivatives effected through position transfer, the customer shall give instructions with respect to the matters enumerated in each item of Paragraph 1 of the same rule to an Order Execution Trading Participant by the cut-off time which such Order Execution Trading Participant specifies no later than 4:00 p.m. of the day on which the trading day when the transaction pertaining to position transfer that was effected ends.
4. The provisions of Rule 10, Paragraphs 3 and 4 shall be applied mutatis mutandis to the instructions on the matters enumerated in Rule 9, Paragraph 1, Item 2 by a customer of the Clearing Execution Trading Participant who conducted give-up for market transactions of derivatives effected through position transfer.

**Chapter 3  
Margin, etc.**

**Rule 12. Margin**

Matters concerning the margin shall be governed by the Rules on Margin and Transfer of Unsettled Contracts Pertaining to Futures/Options Contract (hereinafter referred to as "Margin Rules").

**Chapter 4  
Exercise of Options by Customer**

**Rule 13. Instruction of Exercise of Securities Options**

1. Where a customer entrusts the exercise of securities options, said customer shall give instructions on the amount pertaining to the exercise of each issue to its Trading Participant by 4:00 p.m. on the exercise date; provided, however, that for those executed on the exercise date as securities options contracts pertaining to give-up, the instruction to the Trading Participant shall be made no later than 4:45p.m.
2. Notwithstanding the provisions of the preceding paragraph, where J-NET transactions are executed after the end of the trading session on the exercise date, the customer who entrusted said J-NET transactions shall, if entrusting the exercise of the relevant issues, give the instructions referred to in the preceding paragraph no later than 4:20 p.m.
3. With respect to an issue which falls under any of the following items on the exercise date, it shall be deemed that the instructions referred to in the preceding two paragraphs were given even if such instructions were not given by the time prescribed in the preceding two paragraphs; provided, however, that this shall not apply when the customer has given an instruction that such customer will not exercise the option pertaining to such issue by said cut-off time.
  - (1) A securities put option whose exercise price exceeds the option reference price (meaning the option reference price specified in the Business Regulations of JSCC; the same shall apply hereinafter).
  - (2) A securities call option whose exercise price is lower than the option reference price.
4. Where OSE deems it inappropriate to consider that instructions on exercise were given pursuant to the provisions of the main clause of the preceding paragraph due to any malfunction in the operation of the trading systems or any other unavoidable reason, such provisions of the main clause in the same paragraph shall not apply.

**Rule 13-2. Instruction of Exercise of Government Bond Futures Options**

1. Where a customer entrusts the exercise of government bond futures options, said customer shall give instructions on the amount pertaining to the exercise of each issue to its Trading Participant by 4:00 p.m. of the day of the exercise.
2. With respect to an issue which falls under any of the following items on the expiration date of the exercise period, it shall be deemed that the instructions referred to in the preceding paragraph were given even if such instructions were not given by the time prescribed in the same paragraph on that day; provided, however, that this shall not apply when the customer has given an instruction that such customer will not exercise the option pertaining to such issue by said cut-off time.

(1) A government bond futures put option whose exercise price exceeds the settlement price (see Note below) of the underlying government bond futures contract month as of a trading day that ends on the expiration date of the exercise period.

(Note) Such settlement price means a price determined by JSCC as the settlement price of the government bond futures contract; the same shall apply hereinafter.

(2) A government bond futures call option whose exercise price is lower than the settlement price of the underlying government bond futures contract month as of the trading day that ends on the expiration date of the exercise period.

3. Where OSE deems it inappropriate to consider that instructions on exercise were given pursuant to the provision of the main clause of the preceding paragraph due to any malfunction in the operation of the trading systems or any other unavoidable reason, such provisions of the main clause in the same paragraph shall not apply.

#### **Rule 14. Instruction of Exercise of Index Options**

1. Where a customer entrusts exercise of index options, said customer shall give the instruction pertaining the exercise for the amount for each issue (except for the issues falling under the cases prescribed in the following items) to its Trading Participant by 4:00 p.m. on the exercise date:
- (1) An index put option whose exercise price is at the option settlement price or lower;
  - (2) An index call option whose exercise price is at the option settlement price or higher.
2. With respect to an issue which falls under any of the following items, it is deemed that the instructions referred to in the preceding paragraph were given even if such instructions were not given by the time prescribed in the same paragraph; provided, however, that this shall not apply when the customer has given an instruction that such customer will not exercise the options pertaining to such issue by said cut-off time.
- (1) An index put option whose exercise price exceeds the option settlement price;
  - (2) An index call option whose exercise price is lower than the option settlement price.

#### **Rule 14-2. Special Provisions for Instruction of Exercise of Options**

1. If a customer (limited to customers of a Remote Trading Participant (meaning Remote Trading Participants prescribed in Rule 3, Paragraph 3 of the Trading Participant Regulations; the same shall apply hereinafter) that belong to the same corporate group (meaning the corporate group prescribed in Article 5, Paragraph 1, Sub-item 2 of the Act; the same shall apply hereinafter) as the Remote Trading Participant; the same shall apply in this rule) has agreed in advance with the

Trading Participant that is a Non-Clearing Participant and its Designated Clearing Participant, such customer may give instruction to exercise or not exercise options prescribed in the preceding three (3) rules (hereinafter referred to as "instruction on options exercise, etc." in this rule) to the Designated Clearing Participant in place of the Trading Participant.

2. If a customer has given instruction on options exercise, etc. to the Designated Clearing Participant pursuant to the provisions of the preceding paragraph, such instruction shall be deemed to be the instructions on options exercise, etc. prescribed in the preceding three (3) rules.
3. A customer that gives instruction on options exercise, etc. pursuant to the provisions of Paragraph 1 must report the status of such instructions on options exercise, etc. to the Remote Trading Participant according to the instructions of the Remote Trading Participant.

## **Chapter 5**

### **Settlement by Customer, etc.**

#### **Section 1**

#### **Settlement by Customer pertaining to Government Bond Futures Contracts**

##### **Rule 14-2-2. Money to be Paid/Received for Settlement**

1. The amount of money (excluding the amount of the consideration to be paid/received for settlement by delivery/payment computed pursuant to the provisions of Rule 14-7 in the case where a customer effects settlement by delivery/payment) to be paid/received between a customer and a Trading Participant for settlement of a large contract shall be determined as follows: if the customer conducts the settlement by effecting a resale or repurchase, the amount shall be the sum of the amount obtained by multiplying the difference between the contract price of his/her unsettled contract relevant to such resale or repurchase and the contract price of the resale or repurchase by 1,000,000 (one million) yen; or, if the customer conducts the settlement by delivery/payment, the amount shall be the sum of the amount obtained by multiplying the difference between a contract price of his/her unsettled contract and a delivery settlement price (meaning the price used as a basis for the computation of the amount of the consideration to be paid/received for settlement by delivery/payment; the same shall apply hereinafter) by 1,000,000 (one million) yen. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where the average value (hereinafter referred to as "average price") of unit prices of transactions effected for the same issue on the same day may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet

Office Ordinance of Financial Instruments Business, etc., average prices may be used for the contract price as specified by OSE.

2. The amount of money to be paid/received between a customer and a Trading Participant for settlement of a mini contract shall be the amount equivalent to the difference between the following A and B where the customer settles the mini contract by resale or repurchase. Said amount of money shall be the amount equivalent to the difference between the following C and D where an unsettled contract based on entrustment from the customer is settled by final settlement:

A: The contract price pertaining to unsettled contracts based on entrustment from the customer which corresponds to said resale or repurchase

B: The contract price pertaining to said resale or repurchase

C: The contract price pertaining to unsettled contracts based on entrustment from the customer

D: The final settlement price

In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., average prices may be used for the contract price as specified by OSE.

3. In cases where a customer conducts settlement of government bond futures transactions, in the event that a customer incurs loss, the customer shall pay the Trading Participant the amount of money equivalent to the amount of such loss. In such cases, if the customer conducts the settlement by effecting resale or repurchase, such payment shall be made by the date and time designated by the Trading Participant but no later than the day after the trading day on which the resale or repurchase was effected ends; provided, however, that if the customer is a "non-resident" (meaning a non-resident prescribed in Article 6, Paragraph 1, Item 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949); the same shall apply hereinafter in this chapter), the payment shall be made by the date and time designated by the Trading Participant but no later than the second day (excluding non-business days; the same shall apply hereinafter in terms of counting the number of days) after the trading day. If the customer intends to conduct settlement by delivery/payment for large contracts, such payment shall be made by the date and time designated by the Trading Participant but no later than the day after the last trading day (or the second day after the last trading day, if the customer is a non-resident) of the relevant contract month. If the customer intends to conduct final settlement for mini contracts, such payment shall be made by the date and time designated by the Trading

Participant which is by the final settlement date (or the following day if the customer is a non-resident) of said contract month.

**Rule 14-3. Appropriation of Margin to Payment for Settlement**

A Trading Participant may appropriate the amount of money to be submitted or deposited therewith by a customer as of the day on which the customer should make payment to the Trading Participant as a margin or the amount of money equivalent to the customer's unrealized gain prescribed in the Margin Rules for the payment that should be made by the customer to the Trading Participant pursuant to the provisions of Paragraph 3 of the preceding rule.

**Rule 14-4. Deliverable Bonds**

For settlement by delivery/payment of large contracts between a customer and a Trading Participant, government bonds enumerated in each of the following items shall be treated as the deliverable grade.

- (1) For standardized mid-term government bonds, coupon-bearing government bonds with remaining maturity of 4 years or more but less than 5 years and 3 months both on the issue date and the date of settlement by delivery/payment, and whose issue date falls in a month that is three or more months prior to the month in which the date of settlement by delivery/payment falls.
- (2) For standardized long-term government bonds, coupon-bearing government bonds with remaining maturity of 7 years or more but less than 11 years both on the issuance day and the day of settlement by delivery/payment, and whose issuance day falls under a month that is three or more months prior to the month in which the date of settlement by delivery/payment falls.
- (3) For standardized super long-term government bonds, coupon-bearing government bonds with remaining maturity of 19 years and 3 months or more but less than 21 years both on the issue date and the date of settlement by delivery/payment, and whose issue date falls under a month that is four or more months prior to the month in which the date of settlement by delivery/payment falls.

**Rule 14-5. Computation of Conversion Factors between Deliverable Bonds and Standardized Government Bonds**

In cases of a customer conducting settlement by delivery/payment of large contracts, the conversion factors between deliverable bonds and the standardized government bonds shall be computed in accordance with the attached "Table for Computation of Conversion Factors

between Deliverable Bonds and Standardized Government Bonds" in the Business Regulations.

Rule 14-6. Deleted.

**Rule 14-7. Method of Computation of the Amount of Consideration for Settlement by Delivery/Payment**

1. The amount of consideration for settlement by delivery/payment to be paid/received between a customer and a Trading Participant for settlement by delivery/payment for large contracts shall be the amount obtained by multiplying the product of the delivery/payment settlement price of the contract month and the conversion factor calculated pursuant to the provisions of Rule 14-5 for the deliverable bond designated by a customer who entrusted the sale (hereinafter referred to as a "selling customer") or the deliverable bond designated by the Trading Participant for each customer who entrusted the purchase (hereinafter referred to as a "buying customer") by 1/100 (one hundredth) of the total amount of face value of such deliverable bond.
2. Accrued interest to be paid/received in settlement by delivery/payment shall be added to the amount of consideration for settlement by delivery/payment computed pursuant to the provisions of the preceding paragraph.

**Rule 14-8. Combination of Securities of Deliverable Grade**

A selling customer shall be granted an option regarding combination of securities of deliverable grade for each deliverable bond in integral multiples of the trading unit.

**Rule 14-9. Notification of Securities of Deliverable Grade**

A selling customer who conducts settlement by delivery/payment for large contracts shall notify the Trading Participant of issues of government bonds and the quantity thereof by the date and time designated as necessary for the settlement for delivery/payment by the Trading Participant.

**Rule 14-10. Delivery/Payment Cut-off Time for Customer**

For settlement by delivery/payment for large contracts, a customer shall deliver government bonds such customer sold or pay the purchase considerations to the Trading Participant by the date and time designated by the Trading Participant as necessary for settlement by delivery/payment for large contracts.

**Rule 14-11. Delivery by Book-entry Transfer**

When settlement by delivery/payment for large contracts is conducted between a customer and

a Trading Participant, the Trading Participant shall, by establishing an account for the customer pursuant to the Act Concerning Book-Entry Transfer of Corporate Bonds, Stocks, etc. (Act No. 75 of 2001; hereinafter referred to as the "Book-Entry Transfer Act"), deliver or receive government bonds pertaining to his/her purchase or sale contract by book-entry transfer through such account; provided, however, that this shall not apply in the case that a customer delivers or receives government bonds by book-entry transfer through an account with the Bank of Japan.

**Rule 14-12. Application of BOJ Book-Entry Regulations**

Settlement by delivery/payment for large contracts shall, in addition to the provisions prescribed in these Standards, be subject to an agreement between a Trading Participant and a customer pursuant to the provisions of the BOJ Book-Entry Regulations as prescribed by the Bank of Japan.

**Rule 14-12-2. Special Provisions for Settlement Pertaining to Customer of Remote Trading Participant**

1. If a customer (limited to customers of a Remote Trading Participant that belong to the same corporate group as the Remote Trading Participant; the same shall apply in this rule and the following rule) has agreed in advance with the Remote Trading Participant and its Designated Clearing Participant, it may settle government bond futures contracts with the Designated Clearing Participant in place of the Remote Trading Participant in accordance with the provisions of Rule 14-2-2 through the preceding rule.
2. If a customer has conducted settlement with the Designated Clearing Participant pursuant to the provisions of the preceding paragraph, such settlement shall be deemed to have been conducted between the customer and the Remote Trading Participant.

**Rule 14-12-3. Reporting Obligations Concerning Status of Settlement Pertaining to Customer of Remote Trading Participant**

A customer that conducts settlement of government bond futures contracts with the Designated Clearing Participant pursuant to the provisions of Paragraph 1 of the preceding rule must report the status of such settlement to the Remote Trading Participant according to the instructions of the Remote Trading Participant.

**Section 1-2**

**Use of Cross Margining by Customers**

**Rule 14-13. Offer pertaining to Application for Cross Margining**

1. In cases where a customer is a cross margining user, the customer may make an offer pertaining to the application for cross margining to Trading Participants with respect to the position for government bond futures transactions for the said customer's account.
2. A customer shall make the offer to Trading Participants pursuant to the provisions of the preceding paragraph, after confirming that the position concerning the offer does not exceed the position for government bond futures transactions for the said customer's account.
3. Notwithstanding the provisions of Paragraph 1, in the event that a cross margining applicant may not apply for cross margining as specified by JSCC, customers of such cross margining applicant or customers of the Non-Clearing Participants which designate such cross margining applicant as Designated Government Bond Futures, etc. Clearing Participant may not make an offer pertaining to the application for cross margining to the Trading Participants.

**Rule 14-14. Application of Interest Rate Swap Clearing Business Rules concerning JGB Futures Position Transfer, etc.**

1. A JGB Futures Position Transfer by a customer that is a cross margining user shall be as prescribed in the Interest Rate Swap Clearing Business Rules of JSCC.
2. The designation of a JGB Futures Backup Clearing Broker by a customer that is a cross margining user shall be as prescribed in the Interest Rate Swap Clearing Business Rules of JSCC.

**Section 1-3**

**Settlement by Customer relating to Index Futures Contracts**

**Rule 15. Money to be Paid/Received for Settlement Relating to Index Futures Contracts**

1. The amount of money to be paid/received between a customer and a Trading Participant for settlement of an index futures contract shall be the amount equivalent to the difference between the following A and B where the customer settles the index futures contract by resale or repurchase. Said amount of money shall be the amount equivalent to the difference between the following C and D where an unsettled contract based on entrustment from the customer is settled by final settlement:
  - A: The contract price pertaining to unsettled contracts based on entrustment from the customer which corresponds to said resale or repurchase
  - B: The contract price pertaining to said resale or repurchase
  - C: The contract price pertaining to unsettled contracts based on entrustment from the customer

**D: The final settlement price**

In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., average prices may be used for the contract price as specified by OSE.

2. In cases where a customer conducts settlement of index futures transactions, in the event that a customer incurs loss, the customer shall pay the Trading Participant the amount of money equivalent to the amount of such loss. In such cases, if the customer conducts the settlement by effecting resale or repurchase, such payment shall be made by the date and time designated by the Trading Participant but no later than the day after the trading day on which the resale or repurchase was effected ends; provided, however, that if the customer is a non-resident, the payment shall be made by the date and time designated by the Trading Participant but no later than the second day after the trading day. If the customer intends to conduct final settlement, such payment shall be made by the date and time designated by the Trading Participant which is by the final settlement date (or the following day if the customer is a non-resident) of said contract month.

**Rule 16. Appropriation of Margin to Payment for Settlement**

A Trading Participant may appropriate the amount of money to be submitted or deposited therewith by a customer as of the day on which the customer should make payment to the Trading Participant as a margin or the amount of money equivalent to the customer's unrealized gain prescribed in the Margin Rules for the payment that should be made by the customer to the Trading Participant pursuant to the provisions of Paragraph 2 of the preceding rule.

**Rule 16-2. Special Provisions for Settlement Pertaining to Customer of Remote Trading Participant**

1. If a customer (limited to customers of a Remote Trading Participant that belong to the same corporate group as the Remote Trading Participant; the same shall apply in this rule and the following rule) has agreed in advance with the Remote Trading Participant and its Designated Clearing Participant, it may settle index futures contracts with the Designated Clearing Participant in place of the Trading Participant in accordance with the provisions of the preceding two (2) rules.
2. If a customer has conducted settlement with the Designated Clearing Participant pursuant to the provisions of the preceding paragraph, such settlement shall be deemed to have been conducted

between the customer and the Remote Trading Participant.

**Rule 16-3. Reporting Obligations Concerning Status of Settlement Pertaining to Customer of Remote Trading Participant**

A customer that conducts settlement of index futures contracts with the Designated Clearing Participant pursuant to the provisions of Paragraph 1 of the preceding rule must report the status of such settlement to the Remote Trading Participant according to the instructions of the Remote Trading Participant.

**Section 2**

**Settlement by Customer relating to Securities Options Contracts**

**Rule 17. Payment of Option Premium**

With respect to an order for purchase of securities options contracts, a customer shall pay the Trading Participant the option premium pertaining to such purchase by the date and time designated by the Trading Participant but no later than the day following the day on which the purchase is effected; provided, however, that if the customer is a non-resident, the payment shall be made by the date and time designated by the Trading Participant but no later than the second day after the day on which said transaction is executed. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be calculated based on average prices as specified by OSE.

**Rule 18. Appropriation of Margin to Payment of Option Premium for Settlement**

A Trading Participant may appropriate the amount of money submitted or deposited therewith by a customer as of the day on which the customer should make payment to the Trading Participant for the settlement or the amount of money equivalent to the customer's unrealized gain prescribed in the Margin Rules for the option premium that should be paid by the customer to the Trading Participant pursuant to the provisions of the preceding rule. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be

calculated based on average prices as specified by OSE.

**Rule 19. Settlement Cut-off Time, etc. for Exercise of Options by Customer**

1. For settlement of trades in underlying securities executed where the customer has given instructions prescribed in Rule 13, Paragraph 1 and Paragraph 2 and where the customer has been assigned exercise of securities options contracts, the money or securities provided in Rule 21 pertaining to trades in underlying securities executed by said exercise shall be submitted to the Trading Participant no later than 9:00 a.m. on the fourth day following the exercise date; provided, however, that for the settlement of the transactions in underlying securities executed by the exercise on the day (to be moved up in order if it falls on a non-business day; the same shall apply hereinafter) preceding the date (limited to the date prescribed by the designated exchange and related to regular transactions; the same shall apply hereinafter) of ex-dividend, etc. or the date (limited to the day on which the trading of shares (including investment trust beneficiary certificates and investment securities; the same shall apply hereinafter) after the reverse stock split prescribed by the designated exchange and related to regular transactions; the same shall apply hereinafter) on which the trading of shares after reverse stock split starts, it shall be deposited no later than 9:00 a.m. on the third day following the exercise date.
2. Notwithstanding the provisions of the preceding paragraph, if the Trading Participant designates, when receiving exercise instruction or assigning exercise, a date and time no later than the settlement cut-off time stipulated by JSCC, the customer shall deliver the money or securities provided in Rule 21 to the Trading Participant no later than said date and time.

**Rule 20. Delivery by Customer where DVP Settlement is Used**

1. For trades in underlying securities executed where the customer has given instructions prescribed in Rule 13, Paragraph 1 and where the customer has been assigned exercise of securities options contracts, if DVP settlement is used by agreement between the customer and the Trading Participant as provided in the Business Rules of JASDEC DVP Clearing Corporation (hereinafter referred to as "JDCC"), the customer shall deliver the securities or pay the funds to JDCC no later than the settlement cut-off time stipulated by JDCC (or, for delivery of securities, before the settlement cut-off time stipulated by JSCC designated by the Trading Participant at the time of the agreement) on the day stipulated in Paragraph 1 of the preceding Rule.
2. In the event that a customer delivers securities or pays funds pursuant to the provisions of the preceding paragraph, said delivery of securities or payment of funds shall be deemed to be the delivery of selling securities or delivery of purchase funds referred to in Paragraph 1 of the

preceding Rule.

**Rule 21. Money and Securities Delivered for Settlement**

1. The amount of money or securities that the customer delivers to the Trading Participant for the purpose of settlement of trades in underlying securities executed by exercise provided in the preceding Rule shall be as stipulated in the following items in accordance with the categories prescribed respectively in those Items:
  - (1) Where the quantity of an underlying security for one trading unit of the securities option is the number in a trading unit of the underlying security:
    - a. When the said customer is the selling customer in the transaction in underlying securities executed by exercise:

The amount of securities calculated by multiplying the amount of securities underlying 1 unit of the securities option by the amount of the securities option pertaining to exercise.
    - b. When the said customer is the purchasing customer in the transaction in the underlying security executed by exercise:

The purchase money (the amount calculated by multiplying the amount obtained by multiplying the number of securities underlying 1 unit of the securities option by the exercise price (any fraction less than 1 yen shall be rounded down) by the number of securities options pertaining to exercise).
  - (2) Where the quantity of an underlying security for one trading unit of the securities option is greater than the trading unit of the underlying security:
    - (a) When the said customer is the selling customer in the transaction in the underlying security executed by exercise:
      - (i) The amount of money equivalent to the amount calculated by multiplying the amount obtained by multiplying the amount less than a trading unit by the option settlement price (any fraction less than 1 yen shall be rounded down) by the amount of securities options exercised.
      - (ii) The amount of securities calculated by multiplying the number of securities (3) underlying 1 unit of the securities option less the amount less than the trading unit by the number of securities options exercised.
    - (b) When the said customer is the purchasing customer in the transaction in underlying securities executed by exercise: The purchase money.
  - (3) Where the quantity of an underlying security for one trading unit of the securities option is less than the number in a trading unit of securities underlying the option.

(a) When the said customer is the selling customer in the transaction in underlying securities executed by exercise:

The provisions of (a)(i) of the preceding item shall apply.

(b) When the said customer is the purchasing customer in the transaction in underlying securities executed by exercise:

The purchase money.

2. In the case where the money provided in Item 2 of the preceding paragraph is settled between the customer and the Trading Participant, it shall be done by giving or receiving money equivalent to the difference between the money provided in Item 2 (a)(i) of the preceding paragraph and the purchase money provided in (b) of the same item, and where the money provided in Item 3 of the preceding paragraph is settled between the customer and the Trading Participant, it shall be done by giving or receiving money equivalent to the difference between the money provided in (i) of the same Item and the purchase money provided in (ii) of the same item.

**Rule 22. Measures when Receiving Delivery of Due Bills**

In the event that a Trading Participant receives the delivery of due bills in place of the purchasing underlying securities upon settlement of the purchase of underlying securities executed by exercise of securities options contracts, the Trading Participant may, with the approval of the purchasing customer, defer delivery of said purchasing underlying securities to the customer.

**Rule 23. Restrictions of Securities Eligible for Settlement**

With respect to the delivery or receiving of securities relating to the settlement of transactions in underlying securities executed by exercise of securities options contracts, in the event that the rights and obligations of old and new securities are the same and both securities are consolidated and then traded, they shall be handled as the same for settlements coming on or after the day on which said trading begins.

**Rule 24. Application of Regulations of JASDEC, etc.**

A brokerage agreement for transactions in underlying securities executed by exercise of securities options contracts shall, in addition to the provisions of these Standards, be in accordance with the agreement concluded between the Trading Participant and the customer under the Business Regulations relating to Stocks, etc. stipulated by Japan Securities Depository Center, Inc. (hereinafter referred to as "JASDEC").

**Rule 25. Delivery by Book-Entry Transfer**

When having received entrustment of securities options transactions from a customer, a Trading Participant shall set up an account under the Book-Entry Transfer Act for said customer and conduct delivery of securities pertaining to sales and purchases of underlying securities executed by exercise of securities options contracts thereof by book-entry transfer through that account; provided, however, that this shall not apply to cases where delivery of the securities is to be conducted by book-entry transfer through another account of said customer under the Book-Entry Transfer Act.

**Rule 26. Provision of Credit by Trading Participants for Customer's Exercise**

1. In the case where a customer gives instructions on exercise of securities options contracts or receives credit from a Trading Participant for the purpose of settlement of trades in underlying securities (limited to those issues that can be traded on margin on OSE; the same shall apply hereinafter in this Rule) executed where the customer has been assigned exercise (limited, in cases of exercise of securities options contracts for the securities options provided in Rule 21, Paragraph 1, Item 2, to those relating to the amounts of securities provided in (a)(ii) of the same item), the customer shall set up a margin trading account under the provisions of Rule 5 of the Brokerage Agreement Standards in advance.
2. With respect to opening a margin trading account, such customer shall make an application to a Trading Participant, and shall obtain its approval.
3. When a customer has obtained the approval of a Trading Participant for the application as described in the preceding paragraph, the customer shall complete the prescribed matters in the Agreement for Setting up Margin Trading Account in the form specified by OSE, put the customer's signature and/or seal thereon and submit it to the Trading Participant.
4. The provisions of Rule 5, Paragraph 4 and Paragraph 5 shall be applied mutatis mutandis to the submission of the agreement pursuant to the provisions of the preceding paragraph. In this case, "the provisions of Paragraph 2 (including the case where the term "Trading Participant" shall be "Order Execution Trading Participant and Clearing Execution Trading Participant" in the preceding paragraph)" in Paragraph 4 of the same rule shall be deemed to be replaced with "the provisions of the preceding paragraph."
5. The credit in Paragraph 1 shall apply mutatis mutandis to the Chapter 4 of the Brokerage Agreement Standards of TSE In this case "Trading Participant" shall be deemed to be replaced with "Futures, etc. Trading Participant of Osaka Exchange, "day on which the transactions are executed" in Rule 39 shall be deemed to be replaced with "day following the exercise date",

"day on which the sale or purchase on margin is executed" in Rule 43 shall be deemed to be replaced with "day following the exercise date" and "day on which such loss calculation arises" in Rule 48 shall be deemed to be replaced with "day on which such loss calculation arises or the day following the exercise date".

6. If a customer who has set up a margin trading account with the Trading Participant applies with said Trading Participant to conduct transactions on margin in underlying securities executed by exercise or assignment of exercise no later than the day following the exercise date (or, if the exercise date falls on the day before the dates of ex-dividend etc. or the date in which the trading of shares after stock merger pertaining to said transaction in securities underlying the option, the exercise date; the same shall apply hereinafter in this paragraph), and indicates to said Trading Participant whether it is to be a standardized margin transaction or a negotiable margin transaction, a sale or purchase of said underlying securities shall be executed on margin on the day following the exercise date.
7. In the cases referred to in the preceding paragraph, where the total amount of deposited margin stipulated in Rule 33, Paragraph 1 of the Margin Rules exceeds the customer's margin requirement (excluding amounts related to the said exercise), stipulated in Rules on Margins, etc. pursuant to the provisions of the Business Rules of JSCC, notwithstanding the provisions of Rule 35, Paragraph 1 of the Rules on Margins, etc., the customer may withdraw said excess amount (in the case of money, limited to the money excess amount provided in Paragraph 1, Item 1 of the same Rule) and apply it to the customer margin for margin transactions that said customer is to deposit.
8. In the case in Paragraph 5, where the customer settles said margin transaction by means of an offsetting transaction for a corresponding amount of the same issue as the security underlying the option (limited to those where the settlement date stipulated by OSE pertaining to said offsetting transaction is the same date as the settlement date stipulated by OSE pertaining to the purchase or sale of the security underlying options on margin), the provisions of Rule 39 of the Brokerage Agreement Standards of TSE as applied *mutatis mutandis* in the same paragraph shall not apply.

**Rule 26-2. Special Provisions for Settlement Pertaining to Customer of Remote Trading Participant**

1. If a customer (limited to customers of a Remote Trading Participant that belong to the same corporate group as the Remote Trading Participant; the same shall apply in this rule and the following rule) has agreed in advance with the Remote Trading Participant and its Designated Clearing Participant (meaning the Designated Index Futures, etc. Clearing Participant for

payment/receipt of option premiums, and the Designated Securities Clearing Participant for settlement of trades in underlying securities executed by exercise; the same shall apply hereinafter in this rule), it may settle securities options contracts with the Designated Clearing Participant in place of the Remote Trading Participant in accordance with the provisions of Rule 17 through Rule 19 and Rule 21 through Rule 25.

2. If a customer has conducted settlement with the Designated Clearing Participant pursuant to the provisions of the preceding paragraph, such settlement shall be deemed to have been conducted between the customer and the Remote Trading Participant.

**Rule 26-2-2. Reporting Obligations Concerning Status of Settlement Pertaining to Customer of Remote Trading Participant**

A customer that conducts settlement of securities options contracts with the Designated Clearing Participant pursuant to the provisions of Paragraph 1 of the preceding rule must report the status of such settlement to the Remote Trading Participant according to the instructions of the Remote Trading Participant.

**Section 2-2**

**Settlement by Customer pertaining to Government Bond  
Futures Options Contracts, etc.**

**Rule 26-2-3. Settlement Cut-off time for Customer**

With respect to an order for purchase of government bond futures options, a customer shall pay the Trading Participant the option premium pertaining to such purchase by the date and time designated by the Trading Participant but no later than the day after the trading day on which the purchase was executed ends; provided, however, that if the customer is a non-resident, the payment shall be made by the date and time designated by the Trading Participant but no later than the second day after the ending day of the trading day. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be calculated based on average prices as specified by OSE.

**Rule 26-3. Appropriation of Margin to Payment of Option Premium**

A Trading Participant may appropriate the amount of money submitted or deposited therewith

by a customer as of the day on which the customer should make payment to the Trading Participant for the settlement or the amount of money equivalent to the customer's unrealized gain prescribed in the Margin Rules for the payment that should be made by the customer to the Trading Participant pursuant to the provisions of the preceding rule. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be calculated based on average prices as specified by OSE.

**Rule 26-4. Special Provisions for Settlement Pertaining to Customer of Remote Trading Participant**

1. If a customer (limited to customers of a Remote Trading Participant that belong to the same corporate group as the Remote Trading Participant; the same shall apply in this rule and the following rule) has agreed in advance with the Remote Trading Participant and its Designated Clearing Participant, it may settle government bond futures options contracts with the Designated Clearing Participant in place of the Remote Trading Participant in accordance with the provisions of the preceding two (2) rules.
2. If a customer has conducted settlement with the Designated Clearing Participant pursuant to the provisions of the preceding paragraph, such settlement shall be deemed to have been conducted between the customer and the Remote Trading Participant.

**Rule 26-5. Reporting Obligations Concerning Status of Settlement Pertaining to Customer of Remote Trading Participant**

A customer that conducts settlement of government bond futures options contracts with the Designated Clearing Participant pursuant to the provisions of Paragraph 1 of the preceding rule must report the status of such settlement to the Remote Trading Participant according to the instructions of the Remote Trading Participant.

**Section 3**

**Settlement by Customer relating to Index Options Contracts**

**Rule 27. Money to be Paid/Received for Settlement Relating to Index Options Contracts**

The amount of money to be paid/received between a customer and a Trading Participant for

settlement of an index option contract shall be the option premium in the case that the sale or purchase has been executed for the said customer's account, and the amount equivalent to the difference between the exercise price and the option settlement price in the case of settlement of exercise for the said customer's account. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be calculated based on average prices as specified by OSE.

**Rule 28. Settlement Cut-off Time for Customer**

When a customer conducts the settlement referred to in the preceding paragraph, the customer shall pay the Trading Participant the option premium pertaining to the purchase or the amount of money corresponding to receipt of the assignment of the exercise by the date and time designated by the Trading Participant but no later than the day following the day on which the trading day on which the transaction is executed ends or the exercise date (or the second day following the day on which the trading day on which the transaction is executed ends or the exercise date in the case the customer is a non-resident). In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be calculated based on average prices as specified by OSE.

**Rule 29. Appropriation of Margin to Payment of Option Premium for Settlement**

A Trading Participant may appropriate the amount of money submitted or deposited therewith by a customer as of the day on which the customer should make payment to the Trading Participant for the settlement or the amount of money equivalent to the customer's unrealized gain prescribed in the Margin Rules for the payment of option premium or money that should be made by the customer to the Trading Participant pursuant to the provisions of the preceding rule. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be calculated based on average prices as specified by OSE.

**Rule 29-2. Special Provisions for Settlement Pertaining to Customer of Remote Trading Participant**

1. If a customer (limited to customers of a Remote Trading Participant that belong to the same corporate group as the Remote Trading Participant; the same shall apply in this rule and the following rule) has agreed in advance with the Remote Trading Participant and its Designated Clearing Participant, it may settle index options contracts with the Designated Clearing Participant in place of the Remote Trading Participant in accordance with the provisions of the preceding three (3) rules.
2. If a customer has conducted settlement with the Designated Clearing Participant pursuant to the provisions of the preceding paragraph, such settlement shall be deemed to have been conducted between the customer and the Remote Trading Participant.

**Rule 29-3. Reporting Obligations Concerning Status of Settlement Pertaining to Customer of Remote Trading Participant**

A customer that conducts settlement of index options contracts with the Designated Clearing Participant pursuant to the provisions of Paragraph 1 of the preceding rule must report the status of such settlement to the Remote Trading Participant according to the instructions of the Remote Trading Participant.

**Chapter 6**

**Transfer of Unsettled Contracts, etc.**

**Rule 30. Treatment of Unsettled Contracts for Customer's Account, etc.**

Matters concerning the transfer of unsettled contracts for a customer's account shall be prescribed in the Margin Rules.

**Chapter 7**

**Miscellaneous Provisions**

**Rule 31. Measures Taken by Trading Participant Receiving Instructions for Improvement of Position Holding**

1. In the event that a Trading Participant that is a Clearing Participant (meaning a Government Bond Futures, etc. Clearing Participant (meaning the Government Bond Futures, etc. Clearing

Participant prescribed in Rule 4, Paragraph 1 of the Clearing and Settlement Regulations; the same shall apply hereinafter) or an Index Futures, etc. Clearing Participant prescribed in Rule 4, Paragraph 2 of the same regulations; the same shall apply hereinafter) receives an instruction for improvement of position holding (meaning an instruction for improvement of position holding based on the provisions of the Business Rules of JSCC; the same shall apply hereinafter), such Trading Participant may request the customer who has entrusted market transactions of derivatives closely related to the reason for such improvement instruction to settle or transfer to another Trading Participant the unsettled contracts for such customer's account; provided, however, that the said request may be made only when said Clearing Participant receives such improvement instruction as a result of the said customer's failure, without justifiable grounds, to comply with the measures provided in Rule 29-2, Paragraph 2 of the Business Rules of JSCC relating to clearing margin for market transactions of derivatives for the said customer's account, despite the implementation thereof.

2. In the cases referred to in the preceding paragraph, a Trading Participant that is said Clearing Participant may conduct a resale or repurchase, etc. (meaning a resale or repurchase relating to futures transactions, a resale or repurchase relating to options transactions or exercise (including entrustment thereof); the same shall apply hereafter in this Rule) for the said customer's account in order to settle the market transactions of derivatives based on the said customer's order to the extent deemed reasonably necessary; provided, however, that such resale or repurchase, etc. may be conducted only if the said Trading Participant that is a Clearing Participant has failed to comply with such improvement instruction even having made reasonable efforts to comply with such improvement instruction by other means, and when, despite the Trading Participant's request referred to in the same paragraph to the said customer, setting a reasonable grace period in advance, the said customer has not complied with it without justifiable grounds.
3. The provisions of the preceding two paragraphs shall apply mutatis mutandis to cases where a Designated Clearing Participant (meaning an Agency Clearing Participant designated by the following Non-Clearing Participant pursuant to the provisions of Rule 27, Paragraph 1 of the Trading Participant Regulations (see Note below)) pertaining to a Non-Clearing Participant (meaning a Government Bond Futures, etc. Non-Clearing Participant prescribed in Rule 24, Paragraph 2 of the Trading Participant Regulations or an Index Futures, etc. Non-Clearing Participant prescribed in Rule 24, Paragraph 3 of the same regulations; the same shall apply hereinafter) receives an improvement instruction and when such Designated Futures Options Clearing Participant has instructed such Futures Options Non-Clearing Participant to settle or transfer to another Futures Options Clearing Participant the unsettled contracts of index options

based on entrustment of broking of clearing of securities, etc. of the said Futures Options Non-Clearing Participant.

(Note) Such Agency Clearing Participant means an entity that has an Agency Clearing Qualification pertaining to a Government Bond Futures, etc. Clearing Qualification (meaning JGB Futures Clearing Qualification prescribed in the Business Regulations of JSCC) or an Index Futures, etc. Clearing Qualification (meaning Index Futures Clearing Qualification prescribed in the Business Regulations of JSCC)

### **Rule 32. Payment and Receipt of Money in Foreign Currencies**

Payment and receipt of money pertaining to transactions in market transactions of derivatives (including underlying securities executed by exercise of securities options contracts) between a customer and a Trading Participant may be made in a foreign currency designated by the customer if the Trading Participant so agrees.

### **Rule 33. Measures in Case of Customer's Failure to Settle Transactions**

1. In case that a customer does not deposit the margin to be deposited with, or fails to pay money or option premium pertaining to purchases to a Trading Participant by the prescribed cut-off time (including, in cases of large contracts pertaining to government bond futures, the date and time designated by the Trading Participant deeming it necessary as prescribed in Rule 14-10), such Trading Participant may, at its own discretion, conduct a resale, repurchase, settlement by delivery/payment, or the final settlement relating to futures transactions (excluding contracts for clearing on government bond futures subject to cross-margining specified in the Business Rules of JSCC), a resale or repurchase relating to options transactions or a resale or a purchase agreement relating to exercise of securities (including entrustment thereof) for the said customer's account to settle such market transactions of derivatives. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be calculated based on average prices as specified by OSE.
2. In the event that the Trading Participant suffers losses in the case referred to in the preceding paragraph, the Trading Participant may appropriate the money and securities possessed or recorded in the account under the Book-Entry Transfer Act by such Trading Participant on behalf of the customer as compensation for such losses, and if there still remains any deficit,

demand the payment of the amount equal to such deficit from the customer.

**Rule 34. Effectiveness of Cancellation of Transactions, etc.**

1. In the event that OSE cancels transactions, rights and obligations between the customer and the Trading Participant pertaining to said cancelled transactions shall be deemed never to have arisen.
2. A customer may not claim compensation for damages against the Trading Participant that placed an erroneous order even if they have suffered losses as a result of OSE's canceling transactions; provided, however, that this shall not apply to cases in which the Trading Participant is considered to have been intentional or grossly negligent in placing the erroneous order.
3. A customer may not claim compensation for damages against OSE even if they have suffered losses as a result of OSE's canceling transactions; provided, however, that this shall not apply to cases in which OSE is considered to have been intentional or grossly negligent.

**Rule 35. Submission, etc. pertaining to Registration as Person Conducting Low Latency Trading**

1. After completing registration as a person conducting low latency trading, a customer (limited to those who conduct low latency trading (excluding Trading Participants); the same shall apply hereinafter in this paragraph through Paragraph 3) shall promptly submit to OSE a copy of proof of its registered trade name, business name, or name.
2. After completing registration as a person conducting low latency trading, a customer shall promptly notify OSE of matters pertaining to a person who is the contact for OSE as specified in the following items in accordance with the classification enumerated in each such item.
  - (1) In the case where such customer is a low latency trader (meaning a low latency trader prescribed in Article 2, Paragraph 42 of the Act; the same shall apply hereinafter) that is a foreign legal person:

Name and address, etc. of the domestic representative or domestic agent (meaning a domestic representative or domestic agent prescribed in Article 66-53, Item 5, Sub-item c of the Act).
  - (2) In the case where such customer is a low latency trader that is an individual resident in a foreign jurisdiction:

Name and address, etc. of the domestic agent (meaning a domestic agent prescribed in Article 66-53, Item 6, Sub-item b of the Act).
  - (3) In cases other than those enumerated in the preceding two items:

Name and address, etc. of a person who is appropriate as a contact for OSE.

3. After completing registration as a person conducting low latency trading, a customer shall submit to OSE without delay a copy of proof of documents, etc. as specified in the following items in accordance with the classification enumerated in each such item.
  - (1) In the case where such customer is a financial instruments business operator:  
The document describing the contents and method of business specified by the Cabinet Office Ordinance as prescribed in Article 29-2, Paragraph 2, Item 2 of the Act
  - (2) In the case where such customer is a registered financial institution:  
The document enumerated in Article 33-3, Paragraph 2, Item 2 of the Act
  - (3) In the case where such customer is an authorized transaction-at-exchange operator:  
The document enumerated in Article 60-2, Paragraph 3, Item 2 of the Act
  - (4) In cases other than those enumerated in each of the preceding items:  
The document enumerated in Article 66-51, Paragraph 2, Item 2 of the Act and the document describing matters such as operational personnel structure and business execution structure of the organization from among the documents enumerated in Item 4 of the same paragraph.
4. In the case where a customer is a transaction broker (meaning the customer who entrusts a market transaction of derivatives to the Trading Participant (excluding entrustment of brokerage for clearing of securities, etc.) when such customer is a financial instruments business operator or a foreign securities firm and said entrustment to the Trading Participant is one **due to** brokerage of an entrustment of a market transaction of derivatives; the same shall apply hereinafter), such customer must implement appropriate measures to ensure its customer, who applies for brokerage of entrustment of market transactions of derivatives related to low latency trading on the financial instruments exchange market established by OSE, (hereinafter referred to as the "transaction broker's customer ") conducts the following for documents and notices pertaining to said transaction broker's customer: (i) submits to OSE the copy of proof prescribed in Paragraph 1, (ii) notifies OSE of the matters prescribed in each item of Paragraph 2, and (iii) submits to OSE the copy of documents prescribed in each item of the preceding paragraph.

### **Rule 36 Requests to Persons Conducting Low Latency Trading**

1. A customer (limited to persons conducting low latency trading; the same shall apply in this paragraph) must respond to requests made to such customer by Japan Exchange Regulation (hereinafter referred to as "JPX-R") for operations entrusted by OSE to JPX-R pursuant to the provisions of Rule 2-2, Paragraph 2 of the Business Regulations.

2. In the case where a customer is a transaction broker, such customer must implement appropriate measures to ensure its customer (which is a transaction broker's customer) responds to requests made by JPX-R to said transaction broker's customer for operations entrusted by OSE to JPX-R pursuant to the provisions of Rule 2-2, Paragraph 2 of the Business Regulations.

**Special Rules for Business Regulations and Brokerage Agreement Standards  
Relating to the J-NET Market**  
(As of April 1, 2018)

Osaka Exchange, Inc.

**Chapter 1 General Provisions**

**Rule 1. Purpose**

1. These Special Rules prescribe the special rules for the Business Regulations and the Brokerage Agreement Standards, with respect to acceptance of entrustment, etc. of market transactions of derivatives (excluding brokerage for clearing of securities, etc.) on the market where market transactions of derivatives (excluding index futures trading based on the index enumerated in Rule 5, Item 11 of the Business Regulations and the Exchange Foreign Exchange Margin Trading prescribed in the Rule 1, Paragraph 1 of Special Rules for Business Regulations and Brokerage Agreement Standards Relating to Exchange Foreign Exchange Margin Trading; the same shall apply hereinafter) are carried out outside a trading session (hereinafter referred to as the "J-NET Market"), among the OSE markets (meaning the financial instruments exchange markets established by OSE; the same shall apply hereinafter).
2. Any matters which are not prescribed in these Special Rules shall be governed by the Business Regulations and the Brokerage Agreement Standards.

**Rule 2. Definitions of Terms**

The meanings of the terms used in these Special Rules shall be as defined respectively in the following items as well as in other rules herein:

- (1) "J-NET trading" shall mean market transactions of derivatives which are carried out in an off-auction market, and refer to the trading prescribed in the following item and Item 3.
- (2) "J-NET single issue trading" shall mean market transactions of derivatives whose volume is equal to or exceeds the volume prescribed by OSE pursuant to these Special Rules.
- (3) "J-NET combo trading" shall mean market transactions of derivatives in which a sale and purchase of a certain number of issues (meaning contract months in the case of futures trading; the same shall apply hereinafter) are carried out at the same time with such number specified by OSE pursuant to these Special Rules.
- (4) An "auction market" shall mean, out of the OSE markets, a market in which market transactions of derivatives are carried out in a trading session.

## **Chapter 2 Special Rules for Business Regulations, etc.**

### **Rule 3. Bids and Offers for J-NET Trading**

1. A Trading Participant (meaning a Futures, etc. Trading Participant prescribed in Rule 2, Paragraph 2 of the Trading Participant Regulations or a Government Bond Futures, etc. Trading Participant prescribed in Paragraph 3 of the same rule; the same shall apply hereinafter) must make a bid or an offer when it intends to carry out J-NET trading. In such cases, the Trading Participant shall clearly indicate to OSE the matters enumerated in the following items as well as any other matters deemed necessary by OSE.
  - (1) Whether such bid or offer is made for a customer account or for its proprietary account;
  - (2) If such bid or offer is made for low latency trading (meaning low latency trading prescribed in Article 2, Paragraph 41 of the Financial Instruments and Exchange Act (Act No. 25 of 1948; hereinafter referred to as the "Act")); the same shall apply hereinafter), to that effect.
2. A bid/offer for J-NET trading shall be made from a Trading Participant Terminal Device of said Trading Participant.
3. A bid/offer for J-NET trading shall be made on the basis of prices stipulated by OSE.
4. For J-NET single issue trading in which a sale and a purchase are carried out simultaneously, the same Trading Participant shall simultaneously make an offer and a bid that is matched with such offer.
5. For J-NET combo trading, the same Trading Participant shall simultaneously make an offer and a bid that is matched with such offer for each issue.
6. In addition to the provisions of these Special Rules, OSE shall specify matters necessary with respect of bids and offers for J-NET trading.

### **Rule 4. Trading Hours for J-NET Trading**

1. The trading hours for J-NET trading shall be the hours stipulated in the following items for each type of market transactions of derivatives:
  - (1) Government bond futures trading and government bond futures options trading:  
From 8:20 a.m. to 3:15 p.m. and from 3:25 p.m. to 5:30 a.m. on the following day
  - (2) Index futures trading (excluding index futures trading based on Nikkei Stock Average Volatility Index (hereinafter referred to as "Nikkei 225 VI futures trading")) and index options trading:  
From 8:20 a.m. to 4:00 p.m. and from 4:15 p.m. to 5:30 a.m. on the following day
  - (3) Nikkei 225 VI futures trading:  
From 8:20 a.m. to 4:00 p.m. and from 4:15 p.m. to 7:00 p.m.
  - (4) Securities options trading:

From 8:20 a.m. to 4:00 p.m.

2. When it deems necessary, OSE may temporarily change the trading hours prescribed in the preceding paragraph. In such cases, OSE shall notify Trading Participants of such change in advance.

**Rule 5. Execution of Transactions in J-NET Trading**

1. For J-NET single issue trading, a transaction shall be executed when either of a bid/offer matches an offer/bid placed to match such bid or offer.
2. For J-NET combo trading, a transaction in each issue shall be executed when all offers for the issues match all bids placed to match such offers.
3. Notwithstanding the provisions of the preceding two paragraphs, if OSE deems that any price of a bid or offer referred to in the preceding two paragraphs is not appropriate considering the trading condition, etc. in a trading session, a transaction(s) shall not be executed.

**Rule 6. Notification and Confirmation of Transaction Details**

1. When J-NET trading was carried out, OSE shall notify both the selling Trading Participant and the purchasing Trading Participant of the details of the trading through its trading system.
2. When Trading Participants received notification referred to in the preceding paragraph, they shall check and confirm the details thereof.
3. Details of the trading which were notified pursuant to the provisions of Paragraph 1 may be corrected only if OSE deems it necessary.

**Rule 7. Temporary Halt of J-NET Trading**

In the cases referred to each of the following items, OSE shall temporarily halt J-NET trading of the issues referred to therein for the duration of the temporary halt in auction trading of such each issue:

- (1) Where trading in whole or in part of issues of futures is temporarily halted in a trading session pursuant to the provisions of Rule 33, Paragraph 1 of the Business Regulations (including cases where trading is temporarily halted pursuant to the provisions of Paragraph 3 of the same rule):

The issues for which trading is temporarily halted;

- (2) Where trading in whole or in part of issues of government bond futures options or index options is temporarily halted in a trading session pursuant to the provisions of Rule 33, Paragraph 4 of the Business Regulations:

The issues for which trading is temporarily halted.

**Rule 8. Suspension of J-NET Trading**

In the cases enumerated in the following items, OSE may suspend J-NET trading (limited to government bond futures trading in the case of Item 1, index futures trading in the case of Item 2, securities options trading in the cases of Items 3 through 5, government bond futures options trading in the case of Item 6, and index options trading in the case of Item 7) according to the procedures established by OSE:

- (1) Where government bond futures trading in a trading session has been suspended pursuant to the provisions of Rule 32 of the Business Regulations;
- (2) Where index futures trading in a trading session has been suspended pursuant to the provisions of Rule 32 of the Business Regulations;
- (3) Where securities options trading in a trading session has been suspended pursuant to the provisions of Rule 32 of the Business Regulations;
- (4) Where trading in an underlying security is suspended pursuant to the provisions of Rule 29 (excluding Item 4) of the Business Regulations of Tokyo Stock Exchange, Inc.; hereinafter referred to as "TSE") and Rule 19 (excluding Item 4) of the Special Regulations of Business Regulations and Brokerage Agreement Standards Concerning ToSTNeT Market of TSE or when any measure equivalent thereto is taken on a financial instruments exchange market established by another financial instruments exchange;
- (5) Where an issuer of an underlying security conducts a shareholder-directed spin-off;
- (6) Where government bond futures options trading in a trading session has been suspended pursuant to the provisions of Rule 32 of the Business Regulations;
- (7) Where index options trading in a trading session has been suspended pursuant to the provisions of Rule 32 of the Business Regulations;
- (8) Where OSE deems that J-NET trading shows, or is likely to show, unusual movement, or when OSE deems it inappropriate to continue trading in terms of trading management;
- (9) Where OSE deems it difficult to continue J-NET trading in the event of a problem in the operation of the trading system, etc.

**Rule 9. Transactions for Error Correction, etc. pertaining to J-NET Trading**

1. In the event that a Trading Participant has failed to execute a customer's order for J-NET trading on the OSE markets under his/her instructions due to errors, etc. by truly unavoidable reasons, such Trading Participant may, in accordance with the provisions of OSE, with the prior approval of OSE, execute a sale or purchase at a price recognized as reasonable by OSE for its proprietary account as a counterparty to such transaction.
2. The settlement of a sale or purchase in the preceding paragraph shall be made on the day that would be the settlement day if the sale or purchase had been executed in accordance with the original instructions of the customer.

**Rule 10. Business Regulations Applied Mutatis Mutandis**

1. The provisions of Rule 20 through Rule 22, Rule 25, and Rule 29 of the Business Regulations shall apply mutatis mutandis to J-NET trading.
2. The provisions of Rule 17 of the Business Regulations shall not apply to J-NET trading.

**Chapter 3 Special Rules for the Brokerage Agreement Standards**

**Rule 11. Instructions, etc. Upon Customer Order**

1. In cases where a customer entrusts an order for J-NET trading, the customer shall give an instruction or notification regarding the matters enumerated in the following items to the Trading Participant for each order; provided, however, if the Trading Participant agrees on a method for J-NET trading settlement designated in advance by the customer, it shall be deemed that the instructions referred to in Item 3 have been given.
  - (1) Whether the order is for J-NET single issue trading or J-NET combo trading
  - (2) Matters provided in each of the following categories a. through e. of market transactions of derivatives.
    - a. Government bond futures trading
      - (a) Issue
      - (b) Contract month
    - b. Index futures trading
      - (a) Underlying index
      - (b) Large contracts or mini contracts for index futures trading on Nikkei Average and TOPIX (Tokyo Stock Price Index)
      - (c) Contract month
    - c. Securities options trading
      - (a) Underlying security
      - (b) Quantity of an underlying security for one trading unit of the securities option
      - (c) Securities put option or securities call option
      - (d) Contract month
      - (e) Exercise price
    - d. Government bond futures options trading
      - (a) Issues pertaining to government bond futures transactions executed by exercise
      - (b) Government bond futures put option or government bond futures call option
      - (c) Contract month
      - (e) Exercise price
    - e. Index options trading

- (a) Underlying index
    - (b) Index put option or index call option
    - (c) Contract month
    - (d) Exercise price
  - (3) New sale or new purchase, or resale or repurchase
  - (4) Number of contracts
  - (5) Contract price
  - (6) Trading hours
  - (7) Valid period of customer's order
  - (8) In the case where such entrustment is one pertaining to low latency trading, to that effect.
2. Notwithstanding the provisions other than those enumerated in the items in the preceding paragraph, if there is an agreement between a customer and the Trading Participant, the customer may instruct the matters referred to in Item 3 of the preceding paragraph before the cut-off time designated by the Trading Participant that is before 6:30 p.m. of the day on which the trading day on which the transaction is entrusted ends.
  3. In the case in the preceding paragraph, if the customer does not instruct the matters referred to in the preceding paragraph before the cut-off time specified in the preceding paragraph, it shall be deemed that a new sale or a new purchase has been instructed.
  4. When a customer entrusts J-NET trading pertaining to low latency trading, the customer shall notify the Trading Participant, in each case, of the trading strategy specified separately by OSE.

**Rule 12. Instructions, etc. upon Customer Order for J-NET Trading pertaining to Give-up**

1. When a customer entrusts a J-NET trading pertaining to give-up, he/she shall give the Order Execution Trading Participant instructions on the matters enumerated in the following items in addition to the matters enumerated in each item (excluding Item 3) of Paragraph 1 of the preceding rule.
  - (1) Instruction to the effect that it is a J-NET trading pertaining to give-up
  - (2) The name of the Designated Clearing Execution Trading Participant
  - (3) Matters necessary for the Designated Clearing Execution Trading Participant to confirm which customer conducts the J-NET trading pertaining to give-up
2. Notwithstanding the provisions of the preceding paragraph, if there is an agreement between the customer, the Order Execution Trading Participant and the Designated Clearing Execution Trading Participant, the customer may give the instruction referred to in the preceding paragraph by the cut-off time which the Order Execution Trading Participant specifies that is before 4:45 p.m. of the day of the trading day on which such transaction is entrusted ends; provided, however, that, for securities options contracts and government bond futures options contracts, in the event that such day is the last trading day, for the contract month whose last trading day has arrived, the

customer shall give such instructions no later than a time stipulated by the Order Execution Trading Participant that is before 4:00 p.m.

3. Notwithstanding the proviso to Paragraph 1 of the preceding rule and the provisions of Paragraph 2, when a give-up is effected, the customer shall instruct the matters enumerated in Paragraph 1, Item 3 of the preceding rule regarding the new J-NET trading to the Clearing Execution Trading Participant by the cut-off time which the Clearing Execution Trading Participant specifies that is before 5:15 p.m. of the day on which the trading day on which such transaction is entrusted ends; provided, however, that, for securities options contracts and government bond futures options contracts, in the event that such day is the last trading day, for the contract month whose last trading day has arrived, the customer shall give such instructions no later than a time stipulated by the Clearing Execution Trading Participant that is before 4:30 p.m.
4. In the event that J-NET trading that a customer intends to entrust pertains to give-up, the proviso to Paragraph 1 of the preceding rule (excluding the term "provided, however,;"; the same shall apply hereinafter), and the provisions of Paragraphs 2 and 3 of the preceding rule shall be applied mutatis mutandis. In such cases, the term "Trading Participant" in the proviso to Paragraph 1, and Paragraphs 2 and 3 shall be "Clearing Execution Trading Participant"; the term "Item 3" in the proviso to Paragraph 1 shall be "Paragraph 1, Item 3 of the preceding rule" in Paragraph 1; the term "preceding paragraph" in Item 2 shall be "Paragraph 1 of the preceding rule"; and the term "preceding paragraph" in Item 3 by "Paragraph 2 of the preceding rule".
5. In the event that a sale or purchase of J-NET trading pertaining to give-up is extinguished, the entrustment between the customer and the Order Execution Trading Participant shall be terminated and, at the same time, a new entrustment pertaining to the settlement shall arise between the customer and Clearing Execution Trading Participant with respect to the sale or purchase of J-NET trading that newly arises pursuant to the provisions of the same paragraph.

**Rule 13. Effectiveness of Customer's Order at Resumption of J-NET Trading**

Even in the event that OSE has suspended J-NET trading pursuant to Rule 8, any outstanding customer's order shall remain effective during the duration of such order instructed by the customer as prescribed in Rule 11, Paragraph 1, Item 7; provided, however, that this shall not apply to cases where the customer has instructed to cancel such order in such an event.

**Chapter 4 Miscellaneous**

**Rule 14. Notification and Publication to Trading Participants, etc.**

OSE shall notify Trading Participants and publicize the total trading volume, etc. on the J-NET market of OSE on a daily basis through its trading system, etc. in accordance with the provisions

(Reference Translation)

Special Rules for Business Regulations and Brokerage Agreement  
Standards, etc. Relating to the J-NET Market

of Article 130 of the Act.

**Rule 15. Application to Brokerage for Clearing of Securities, etc.**

The provisions of Chapter 2 shall apply to the brokerage for clearing of securities, etc. pertaining to J-NET trading by regarding the Trading Participant that entrusts the brokerage for clearing of securities, etc. as the entity that carries out such J-NET trading.

## **Rules on Margin and Transfer of Unsettled Contracts Pertaining to Futures/Options Contract**

(As of February 13, 2018)

Osaka Exchange, Inc.

### **CHAPTER 1 GENERAL RULES**

#### **Rule 1. Purpose**

1. These rules shall, pursuant to the provisions of Rule 31, Paragraph 1 of the Clearing and Settlement Regulations and the provisions of Rule 12 of the Brokerage Agreement Standards, provide necessary matters concerning margin and transfer of unsettled contracts pertaining to government bond futures contracts, index futures contracts, securities options contracts, government bond futures options contracts, and index options contracts (hereinafter collectively referred to as the "Futures/Options Contracts").
2. Any amendment to these rules shall be made by a resolution from the Board of Directors; provided, however, that this shall not apply to cases where the contents of the amendment is of minor significance.

#### **Rule 2. Definitions**

1. In these rules, "Futures Contract" means a government bond futures contract or an index futures contract traded on a financial instruments exchange market to be established by Osaka Exchange, Inc. (hereinafter referred to as "OSE").
2. In these rules, "Options Contract" means a securities options contract, a government bond futures options contract, or an index options contract traded in a financial instruments exchange market to be established by OSE.
3. In these rules, "Trading Participant" means the Futures, etc. Trading Participant as prescribed in Rule 2, Paragraph 2 of the Trading Participant Regulations or the Government Bond Futures, etc. Trading Participant as prescribed in Paragraph 3 of the same rule.
4. In these rules, "Obligations Pertaining to Futures/Options Contracts" means monetary payment obligations pertaining to settlement of Futures/Options Contracts, obligations of delivery/payment settlement pertaining to government bond futures contracts, and obligations to deliver securities pertaining to settlement by an exercise of options in securities options contracts, and any other obligations that must be fulfilled relating to

Futures/Options Contracts.

5. In these rules, "Broker" means a customer that is a financial instruments business operator or a registered financial institution and that entrusts a Futures/Options Contract to the Trading Participant, and such entrustment is for a trade through brokerage of entrustment of a trade in Futures/Options Contract to a Trading Participant.
6. In these rules, "Applicant" means the person who applied for brokerage of entrustment to a Broker.
7. In these rules, "Non-Resident" means natural persons and corporations other than residents as prescribed in Article 6, Paragraph 1, Item 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949).
8. In these rules, "Clearing Participant" means the Clearing Participant with Government Bond Futures, etc. Clearing Qualification or Index Futures, etc. Clearing Qualification as prescribed in the Business Rules of Japan Securities Clearing Corporation (hereinafter referred to as "JSCC").
9. In these rules, "Non-Clearing Participant" means the Government Bond Futures, etc. Non-Clearing Participant as prescribed in Rule 24-2, Paragraph 2 of the Trading Participant Regulations and the Index Futures, etc. Non-Clearing Participant as prescribed in Paragraph 3 of the same rule.
10. In these rules, "Designated Clearing Participant" means, out of the Designated Clearing Participants as prescribed in Rule 27, Paragraph 1 of the Trading Participant Regulations, an entity designated by a Government Bond Futures, etc. Non-Clearing Participant or an Index Futures, etc. Non-Clearing Participant for entrustment of brokerage for clearing of securities, etc. pertaining to Futures/Options Contracts.
11. In these rules, "Non-Clearing Participant's Proprietary Clearing Margin" means the Clearing Margin that the Designated Clearing Participant deposits with JSCC for the Futures/Options Contracts for the proprietary account of a Trading Participant who is a Non-Clearing Participant.
12. In these rules, "Non-Clearing Participant's Clearing Margin for Customer Account" means the Clearing Margin that the Designated Clearing Participant deposits with JSCC for the Futures/Options Contracts entrusted by a customer of a Non-Clearing Participant.
13. In these rules, "Non-Clearing Participant's Clearing Margin for Customer Account (Direct Deposit)" means, the portion of the Non-Clearing Participant's Clearing Margin for Customer Account that the customer of the Non-Clearing Participant submitted to the Non-Clearing Participant as Clearing Margin (excluding such Clearing Margin as prescribed in the following paragraph).
14. In these rules, "Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker)" means, in the case where an

Applicant deposits a Brokerage Margin with a customer, the portion of the Non-Clearing Participant's Clearing Margin for Customer Account that such customer submits to the Trading Participant who is a Non-Clearing Participant as Clearing Margin equivalent to such Brokerage Margin.

15. In these rules, "Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit)" means the Non-Clearing Participant's Clearing Margin for Customer Account other than those prescribed in the preceding two paragraphs.
16. In these rules, "Clearing Participant's Clearing Margin for Customer Account (Direct Deposit)" means the portion of the Clearing Margin that the Clearing Participant deposits to JSCC concerning Futures/Options Contracts entrusted by a customer (hereinafter referred to as the "Clearing Participant's Clearing Margin for Customer Account") that is submitted by the customer to such Clearing Participant as Clearing Margin (excluding such amount submitted to the Clearing Participant by a customer as a Clearing Margin equivalent to the Brokerage Margin which was deposited to such customer by an Applicant (referred to as the "Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker)" in the following Paragraph)).
17. In these rules, "Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit)" means the portion of the Clearing Participant's Clearing Margin for Customer Account other than the Clearing Participant's Clearing Margin for Customer Account (Direct Deposit) and Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker).
18. In these rules, "Suspension of Trading and others due to Insolvency" means the measures provided in the following items:
  - (1) Suspension of market transactions of derivatives as prescribed in Rule 43, Paragraph 3 of the Trading Participant Regulations (excluding those based on brokerage for clearing of securities, etc.) or suspension of entrustment of brokerage for clearing of securities, etc.
  - (2) Suspension of market transactions of derivatives pursuant to the provisions of Rule 47, Paragraph 1 of the Trading Participant Regulations in cases where the measures provided in the following a. or b. have been enacted.
    - a. Cancellation of clearing qualification or suspension of obligation assumption pursuant to the provisions of the Business Rules of JSCC (limited to cases where OSE deems it especially necessary from the perspective of ensuring fulfillment of obligations, in cases of violation of Instructions for Improvement on Position Holding pursuant to the same provisions (including cases where such a violation is deemed specifically likely to occur)).

- b. Suspension of obligation assumption pursuant to the provisions of the Business Rules of JSCC (limited to cases where JSCC determines that the Clearing Participant is insolvent or is likely to become insolvent, or that it is especially necessary for other specific reasons).
19. In these rules, "Trading Day" means the trading day as prescribed in Rule 4, Item 11 of the Business Regulations
  20. In these rules, "Corporate Group" means a corporate group prescribed in Article 5, Paragraph 1, Item 2 of the Financial Instruments and Exchange Act (Act No. 25 of 1948; hereinafter referred to as "the Act").
  21. In these rules, "Remote Trading Participant" means a Remote Trading Participant prescribed in Rule 3, Paragraph 3 of the Trading Participant Regulations.
  22. In these rules, "Foreign Government Bond Security" means, among securities listed in Article 2, Paragraph 1, Item 17 of the Act, a security that has the nature of securities listed in Item 1 of the same paragraph.

### **Rule 3. Purpose of Margin**

1. The purpose of Clearing Margin shall be to ensure, in accordance with the provisions of these rules, the performance of a Clearing Participant's obligations to pay or deliver to JSCC with respect to Futures/Options Contracts; a Non-Clearing Participant's obligations to pay or deliver to the Designated Clearing Participant with respect to Futures/Options Contracts; and the customer's obligations owed to a Trading Participant with respect to Futures/Options Contracts (in cases where the customer is a Broker, including the Applicant's obligations owed to the customer with respect to Futures/Options Contracts).
2. The purpose of margin (excluding Clearing Margin prescribed in the preceding paragraph) shall be to ensure, in accordance with the provisions of these rules, performance of a customer's obligations owed to a Trading Participant with respect to Futures/Options Contracts.
3. In the event of default on obligations prescribed in the preceding two paragraphs, JSCC, a Clearing Participant, a Non-Clearing Participant, or a customer as a Broker may exercise its right on the Clearing Margin or Margin, to satisfy such obligations.

### **Rule 3-2. Types of Currency**

Clearing Margin, Customer Margin, and Brokerage Margin may be submitted or deposited only in the types of currency prescribed in the Rules on Margins, etc. for Futures/Options Contracts prescribed by JSCC (hereinafter referred to as the

"JSCC Futures/Options Clearing Margin Rules") pursuant to the provisions of its Business Rules.

**CHAPTER 2**  
**RULES PERTAINING TO CLEARING/SETTLEMENT REGULATIONS**

**SECTION 1**  
**CLEARING MARGIN**

**SUB-SECTION 1**  
**CLEARING PARTICIPANT'S CLEARING MARGIN**

**Rule 4. Clearing Participant's Clearing Margin**

Matters related to Clearing Participant's Clearing Margins pertaining to Futures/Options Contracts shall be governed by the Rules on Margins, etc. for Futures/Options Contracts prescribed by JSCC pursuant to the JSCC Futures/Options Clearing Margin Rules.

**SUB-SECTION 2**  
**NON-CLEARING PARTICIPANT'S CLEARING MARGIN**

**Rule 5. Submission of Clearing Margin for Proprietary Account**

A Non-Clearing Participant must, in the event a sale or purchase of a Futures Contract or sale of an Options Contract is carried out for its proprietary account, submit Clearing Margin equivalent to or greater than the required Clearing Margin for its proprietary account as prescribed in the JSCC Futures/Options Clearing Margin Rules, to the Designated Clearing Participant. In this case, securities may be submitted in lieu of cash as the Clearing Margin.

**Rule 6. Submission or Deposit of Clearing Margin for Customer Account**

1. A Non-Clearing Participant must, in the event a sale or purchase of a Futures Contract or sale of an Options Contract entrusted by a customer is carried out, submit or deposit a Clearing Margin equivalent to or greater than the required Clearing Margin for entrusted transactions as prescribed in the following paragraph, to the Designated Clearing Participant.
2. The amount of the required Clearing Margin for entrusted transactions shall be the sum of required Clearing Margins for each customer (in the event a customer is subdivided discretionally, the sum of the required Clearing Margin

- for each such subdivision; the same shall apply in Paragraph 7 and Rule 9, Paragraph 4) as prescribed in the JSCC Futures/Options Clearing Margin Rules for all customers.
3. A Non-Clearing Participant must submit the entire amount of the Clearing Margin submitted by a customer to the Designated Clearing Participant as an agent of such customer.
  4. Notwithstanding the provisions of the preceding paragraph, a Non-Clearing Participant may, for the period until the fourth day (excluding non-business days (meaning non-business days prescribed in Rule 19, Paragraph 1 of the Business Regulations, including extraordinary non-business days prescribed in Paragraph 2 of the same rule; the same shall apply hereinafter); the same shall apply hereinafter for calculation of days) from the date when the customer submits the Clearing Margin, submit its proprietary money equivalent to or greater than the sum of the amount of money (in the event the money is submitted in foreign currency, the amount converted into yen at the Telegraphic Transfer Buying rate of such currency in the Tokyo foreign exchange market two days prior to the day of submission of the Clearing Margin; the same shall apply in the following paragraph and Paragraph 6) and the market value of the securities submitted by such customer as the Clearing Margin (meaning the amount evaluated at the market value (referring to the market value as prescribed in Appendix 1 of the JSCC Futures/Options Clearing Margin Rules; the same shall apply hereinafter) two days (to be moved up in order if the day falls on a holiday; the same shall apply hereinafter) prior to the date of submission of the Clearing Margin (in the event such securities are Foreign Government Bond Securities, the amount converted into yen at the Telegraphic Transfer Buying rate in the Tokyo foreign exchange market of the foreign currency that is used to evaluate such Foreign Government Bond Securities as of the second day prior to the day of submission of the Clearing Margin; the same shall apply to the following paragraph and Paragraph 6) to the Designated Clearing Participant as the Clearing Margin. In this case, securities may be submitted in lieu of cash as Clearing Margin.
  5. A Non-Clearing Participant must, in the event a customer deposits a Customer Margin, submit its own money equivalent to or greater than the sum of money and market value of securities deposited by such customer as the Customer Margin, as the Clearing Margin to the Designated Clearing Participant. In this case, securities may be submitted in lieu of cash as Clearing Margin.
  6. Notwithstanding the provisions of the preceding paragraph, a Non-Clearing Participant may deposit its own money equivalent to or greater than the sum of the money and market value of the securities deposited by such customer as

the Customer Margin, as the Clearing Margin to the Designated Clearing Participant. In this case, securities may be deposited in lieu of cash as the Clearing Margin (hereinafter referred to as the "Non-Clearing Participant's Margin").

7. In cases prescribed from Paragraph 3 to the preceding paragraph, where the sum of money (in the event the money is submitted or deposited in foreign currency, the amount calculated by multiplying the amount converted into yen at the Telegraphic Transfer Buying rate per unit of such currency in the Tokyo foreign exchange market two days prior to the day of deposit of the Clearing Margin by the rate prescribed in the JSCC Futures/Options Clearing Margin Rules) and the amount of the securities evaluated at substitution price (meaning the amount calculated by multiplying the market value two days prior to the date of deposit of the Clearing Margin by the rate prescribed in Appendix 1 of the JSCC Futures/Options Clearing Margin Rules (in the event such securities are Foreign Government Bond Securities, the amount calculated by multiplying the market value by the rate prescribed in Appendix 1 of the JSCC Futures/Options Clearing Margin Rules and then converted into yen at the Telegraphic Transfer Buying rate per unit of the foreign currency in the Tokyo foreign exchange market that is used to evaluate such Foreign Government Bond Securities as of the second day prior to the day of submission of the Clearing Margin)) submitted as Clearing Margin or deposited as Customer Margin by each customer to the Non-Clearing Participant does not meet the required Margin for such customer as prescribed in the JSCC Futures/Options Clearing Margin Rules, a Non-Clearing Participant must submit, as the Clearing Margin or deposit as a Non-Clearing Participant's Margin, its own money equivalent to or greater than the amount calculated by subtracting the Clearing Margin submitted or Customer Margin deposited by such customer from such required margin amount. In this case, securities may be submitted or deposited in lieu of cash as the Clearing Margin or Non-Clearing Participant's Margin.

**Rule 7. Special Rules concerning Submission of Clearing Margins by Broker**

Notwithstanding the provisions of Paragraph 3 of the preceding rule, a Non-Clearing Participant must, if the Clearing Margin is submitted to the Non-Clearing Participant by a customer as an agent of an Applicant, submit the entire amount to the Designated Clearing Participant as an agent of such Applicant.

**Rule 8. Deadline for Submission or Deposit of the Clearing Margin**

Submission of the Clearing Margin or deposit of the Non-Clearing Participant's Margin as prescribed in the preceding three rules must be completed by the time

designated by the Designated Clearing Participant by the deposit deadline prescribed by JSCC on the date (when such date falls on a non-business day, the following business day; the same shall apply hereinafter) following the final date when the sale or purchase of a Futures Contract or sale of an Options Contract was carried out (for securities options contracts, on the date the sale was carried out), expressly stating which of the categories enumerated in the following items it falls under:

- (1) Non-Clearing Participant's Proprietary Clearing Margin;
- (2) Non-Clearing Participant's Clearing Margin for Customer Account (Direct Deposit);
- (3) Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker); or
- (4) Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit)

#### **Rule 9. Maintenance of Clearing Margin**

1. A Non-Clearing Participant must, in the event the sum of money (in the event the money is submitted in foreign currency, the amount calculated by multiplying the amount converted into yen at the Telegraphic Transfer Buying rate per unit of such currency in the Tokyo foreign exchange market on the day before the date of calculation by the rate prescribed in the JSCC Futures/Options Clearing Margin Rules; the same shall apply in the following paragraph and Paragraph 4) and the amount of the securities evaluated at substitution price (meaning the amount calculated by multiplying the market value on the day before the date of calculation (to be moved up in order if the day falls on a holiday; the same shall apply hereinafter) by the rate prescribed in Appendix 1 of the JSCC Futures/Options Clearing Margin Rules (in the event such securities are Foreign Government Bond Securities, the amount calculated by multiplying the market value by the rate prescribed in Appendix 1 of the JSCC Futures/Options Clearing Margin Rules and then converted into yen at the Telegraphic Transfer Buying rate per unit of the foreign currency in the Tokyo foreign exchange market that is used to evaluate such Foreign Government Bond Securities on the day before the date of calculation); the same shall apply to the following paragraph and Paragraph 4) submitted to the Designated Clearing Participant as its proprietary Clearing Margin does not meet the required Clearing Margin amount for its proprietary account as prescribed in the JSCC Futures/Options Clearing Margin Rules, make an additional submission of an amount equivalent to or greater than the balance due as its proprietary Clearing Margin to the Designated Clearing Participant, by the time designated by the Designated Clearing Participant by the deposit

- deadline prescribed by JSCC on the day following the date when such deficiency occurred. In this case, securities may be submitted in lieu of cash as the Clearing Margin.
2. A Non-Clearing Participant must, in the event the sum of the money and the amount of the securities evaluated at substitution price submitted to or deposited with the Designated Clearing Participant as Clearing Margin for Customer Account does not meet the required Clearing Margin for Customer Account amount, make additional submission or additional deposit of an amount equivalent to or greater than the balance due as Clearing Margin or Non-Clearing Participant's Margin to the Designated Clearing Participant, by the time designated by the Designated Clearing Participant by the deposit deadline prescribed by JSCC on the day following the date when such deficiency occurred. In these cases, securities may be submitted or deposited in lieu of cash as such Clearing Margin or Non-Clearing Participant's Margin.
  3. A Non-Clearing Participant must, in the event the sum of the money (in the event the money is submitted or deposited in foreign currency, the amount converted into yen at the Telegraphic Transfer Buying rate per unit of such currency in the Tokyo foreign exchange market on the day before the date of calculation; the same shall apply hereinafter in the this paragraph and Rules 10 and 24) and the market value of the securities (meaning the amount evaluated at the market value on the day before the date of calculation (in the event such securities are Foreign Government Bond Securities, the amount converted into yen at the Telegraphic Transfer Buying rate per unit of the foreign currency in the Tokyo foreign exchange market that is used to evaluate such Foreign Government Bond Securities on the day before the date of calculation); the same shall apply hereinafter in this paragraph and Rules 10 and 24) submitted as Clearing Margin to, or deposited as Non-Clearing Participant's Margin with, the Designated Clearing Participant pertaining to a customer as prescribed in Paragraphs 3 through 6 of Rule 6 or Rule 7, does not meet the sum of money and market value of securities submitted as Clearing Margin or deposited as Customer Margin by such customer, make additional submission or additional deposit of an amount equivalent to or greater than the balance due as Clearing Margin for Customer Account or Non-Clearing Participant's Margin to the Designated Clearing Participant by the time designated by the Designated Clearing Participant by the deposit deadline prescribed by JSCC on the day following the date when such deficiency occurred in accordance with the provisions of Paragraphs 3 through 6 of Rule 6 or Rule 7.
  4. A Non-Clearing Participant must, in the event the sum of the money and the amount of the securities evaluated at substitution price submitted as Clearing Margin or deposited as Customer Margin by each customer does not meet the

required Margin amount for such customer as prescribed in JSCC Futures/Options Clearing Margin Rules, make additional submission or additional deposit of an amount equivalent to or greater than the balance due Clearing Margin for Customer Account or Non-Clearing Participant's Margin to the Designated Clearing Participant in accordance with Rule 6, Paragraph 7, by the time designated by the Designated Clearing Participant by the deposit deadline prescribed by JSCC on the day following the date when such deficiency occurred.

**Rule 9-2. Special Provisions for Submission of Clearing Margin Pertaining to Remote Trading Participant**

If a customer of a Remote Trading Participant (limited to customers that belong to the same Corporate Group as the Remote Trading Participant; the same shall apply in Rules 13-2, 31-2, and 31-3) has submitted Clearing Margin to the Designated Clearing Participant pursuant to the provisions of Rule 31-2, Paragraph 1, such submission shall be deemed as the submission or additional submission of Clearing Margin pursuant to the provisions of Rule 6, Paragraphs 1 and 3, and Paragraph 2 of the preceding rule.

**Rule 10. Right to Claim Return of Clearing Margins**

1. The right of the parties enumerated in each of the following items to claim the return of the Non-Clearing Participant's Clearing Margin for Customer Account deposited with JSCC pertaining to each customer of the Non-Clearing Participant shall be deemed to be possessed by the parties enumerated in each of the following items for the portion equivalent to the amount prescribed in the relevant item, up to the sum of the money and market value of securities deposited by such customer as Customer Margin (including the sum of money and market value of securities pertaining to the Clearing Margin submitted by such customer as Clearing Margin and to be deposited to JSCC; hereinafter referred to as the "Total Amount of the Non-Clearing Participant's Current Deposit for the Customer" in this paragraph), within the sum of money and market value of securities deposited to JSCC as Non-Clearing Participant's Clearing Margin for Customer Account (Direct Deposit) and sum of money and market value of securities deposited to JSCC as Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit):

- (1) Customer

- The amount calculated by deducting the amount equivalent to the unfulfilled portion of the customer's obligation pertaining to the Futures/Options Contracts owed to the Non-Clearing Participant from Total Amount of the Non-Clearing Participant's Current Deposit for the

Customer.

(2) Non-Clearing Participant

The amount calculated by deducting the amount prescribed in the preceding item and the amount equivalent to the unfulfilled portion of obligation of such Non-Clearing Participant to pay or deliver to the Designated Clearing Participant pertaining to Futures/Options Contracts entrusted by such customer from Total Amount of the Non-Clearing Participant's Current Deposit for the Customer.

2. Notwithstanding the provisions of the preceding paragraph, in the event the customer of the Non-Clearing Participant is a Broker, the right of the parties listed in each of the following items to claim the return of the Non-Clearing Participant's Clearing Margin for Customer Account deposited to JSCC pertaining to each Applicant shall be deemed to be possessed by the parties listed in each of the following items for the portion equivalent to the amount prescribed in the relevant item, up to the sum of the money and market value of securities deposited by such Applicant as the Non-Clearing Participant's Clearing Margin for Customer Account (Direct Deposit); the sum of money and market value of securities deposited by such Applicant as Brokerage Margin within the sum of money and market value of securities deposited to JSCC as Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker); and the sum of money and market value of securities deposited by such Applicant as Brokerage Margin or Customer Margin within the sum of money and market value of securities deposited to JSCC as Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit) (including the sum of money and market value of securities pertaining to the Clearing Margin submitted by such customer as Clearing Margin and to be deposited to JSCC; hereinafter referred to as the "Total Amount of the Non-Clearing Participant's Current Deposit for Applicant" in this paragraph).

(1) Applicant

The amount calculated by deducting the amount equivalent to the unfulfilled portion of the Applicant's obligation pertaining to the Futures/Options Contracts owed to the customer from Total Amount of the Non-Clearing Participant's Current Deposit for the Applicant.

(2) Customer

The amount calculated by deducting the amount prescribed in the preceding item and the amount equivalent to the unfulfilled portion of obligation of such customer to the Non-Clearing Participant pertaining to Futures/Options Contracts entrusted by such Applicant from Total Amount of the Non-Clearing Participant's Current Deposit for the Applicant.

(3) Non-Clearing Participant

The amount calculated by deducting the amount prescribed in the preceding two items and the amount equivalent to the unfulfilled portion of obligation of such Non-Clearing Participant to pay or deliver to the Designated Clearing Participant pertaining to Futures/Options Contracts entrusted by such Applicant from Total Amount of the Non-Clearing Participant's Current Deposit for the Applicant.

3. Notwithstanding the provisions of Paragraph 1, in the event the customer of the Non-Clearing Participant is a Broker, the right of the parties enumerated in each of the following items to claim the return of the Non-Clearing Participant's Clearing Margin for Customer Account deposited to JSCC pertaining to each Agency shall be deemed to be possessed by the parties enumerated in each of the following items for the portion equivalent to the amount prescribed in the relevant item, up to the amount deposited to JSCC over the sum of the money and market value of securities deposited by such Applicant as the Brokerage Margin within the sum of money and market value of securities deposited to JSCC as the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker) and the amount deposited to the Non-Clearing Participant as Customer Margin (including the sum of money and market value of securities pertaining to the Clearing Margin submitted by such customer as Clearing Margin and to be deposited to JSCC; hereinafter referred to as the "Total Amount of the Non-Clearing Participant's Current Deposit for Broker" in this paragraph) over the sum of money and market value of securities deposited by such Applicant as Brokerage Margin within the sum of money and market value of securities deposited to JSCC as the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit).

(1) Customer

The amount calculated by deducting the amount equivalent to the unfulfilled portion of the customer's obligation pertaining to the Futures/Options Contracts owed to the Non-Clearing Participant (excluding the amount deducted in accordance with the provisions of Item 2 of the preceding paragraph) from the Total Amount of the Non-Clearing Participant's Current Deposit for Broker.

(2) Non-Clearing Participant

The amount calculated by deducting the amount prescribed in the preceding item and the amount equivalent to the unfulfilled portion of obligation of such Non-Clearing Participant to pay or deliver to the Designated Clearing Participant pertaining to Futures/Options Contracts entrusted by such customer (excluding the amount deducted in accordance with the provisions of Item 3 of the preceding paragraph) from the Total

Amount of the Non-Clearing Participant's Current Deposit for Broker.

4. The right of the Non-Clearing Participant to claim the return of the Non-Clearing Participant's Proprietary Clearing Margin and the Non-Clearing Participant's Clearing Margin for Customer Account deposited to JSCC pertaining to each Non-Clearing Participant shall be deemed to be possessed by the Non-Clearing Participant for the portion equivalent to the amount calculated by deducting the amount equivalent to the unfulfilled portion of obligation pertaining to all Futures/Options Contracts to be paid or delivered by such Non-Clearing Participant to the Designated Clearing Participant (excluding the amount deducted in accordance with the provisions of Item 2 of Paragraph 1, Item 3 of Paragraph 2, and Item 2 of the preceding paragraph) from the Non-Clearing Participant's Current Deposit for the Customer, up to the sum of money and market value of securities deposited with JSCC as the Non-Clearing Participant's Proprietary Clearing Margin (Direct Deposit), the sum of money and market value of securities submitted to the Designated Clearing Participant by the Non-Clearing Participant as Clearing Margin within the sum of money and market value of securities deposited to JSCC as the Non-Clearing Participant's Proprietary Clearing Margin (Replacement Deposit), the amount deposited to JSCC over the sum of money and market value of securities deposited to the Non-Clearing Participant as Customer Margin (including the sum of money and market value of securities pertaining to the Clearing Margin submitted by such customer as Clearing Margin and to be deposited to JSCC) within the sum of money and market value of securities deposited to JSCC as the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit), and the amount deposited to the Designated Clearing Participant as the Non-Clearing Participant's Margin over the sum of money and market value of securities deposited to the Non-Clearing Participant as Customer Margin (including the sum of money and market value of securities pertaining to the Clearing Margin submitted by such customer as Clearing Margin and to be deposited to JSCC) within the sum of money and market value of securities deposited to JSCC as the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit) (hereinafter referred to as the "Non-Clearing Participant's Total Current Deposit" in this paragraph).
5. The right to claim return of the Clearing Margin shall be exercised in the manner prescribed in each of the following items:
  - (1) The right to claim the return held by the Non-Clearing Participant shall be exercised by the Designated Clearing Participant as the agent of such Non-Clearing Participant;
  - (2) The right to claim the return held by the Non-Clearing Participant's

- customer shall be exercised by the Non-Clearing Participant and its Designated Clearing Participant as the agent of such customer; and
- (3) The right to claim the return held by the Applicant shall be exercised by the Non-Clearing Participant who was entrusted by the customer pertaining to the Futures/Options Contracts entrusted by the Applicant, and its Designated Clearing Participant, as the agent of such Applicant.
6. In the event a Non-Clearing Participant deposits the Non-Clearing Participant's Margin or submits Clearing Margin, and such Clearing Margin in the form of replacement deposit, if the Non-Clearing Participant exercises the right to claim return of all or part of such Clearing Margin pursuant to the provisions of the preceding paragraph, the Non-Clearing Participant's Margin deposited or the Clearing Margin submitted by such Non-Clearing Participant shall be returned.

**Rule 10-2. Foreign Currency**

Treatment of submission or deposit in foreign currency by a Non-Clearing Participant shall be prescribed by OSE.

**Rule 11. Replacement Securities**

1. Matters related to replacement securities prescribed in Rule 5, Paragraphs 4 through 7 of Rule 6, and Paragraphs 1 and 2 of Rule 9 shall be as prescribed in Appendix 1 of the JSCC Futures/Options Clearing Margin Rules.
2. In addition to the provisions of the preceding paragraph, treatment of submission or deposit of replacement securities shall be prescribed by OSE.

**Rule 12. Notification of Positions**

A Non-Clearing Participant shall notify its Designated Clearing Participant every trading day (every day in the case of the securities options contract; the same shall apply hereinafter in this rule), the breakdown information of short and long positions for each issue by each customer (or each Applicant in cases where the customer is a Broker), or each subdivision in the event a customer is subdivided discretionally, per omnibus account prescribed in the Business Rules of JSCC, by the time specified by such Designated Clearing Participant; provided, however, that this shall not apply to cases where the Designated Clearing Participant can understand such information every trading day.

**Rule 13. Reporting Duty on Matters concerning Futures/Options Contracts Entrusted by a Customer**

With respect to the notification prescribed in the preceding rule, a Non-Clearing Participant must, in the event the Designated Clearing Party requests reporting on the positions held by the Non-Clearing Participant as agent of a customer and other matters concerning Futures/Options Contracts carried out as agent of a customer

deemed necessary by JSCC for the purpose of reporting by the Designated Clearing Participant to JSCC, immediately submit a document stating such matters to the Designated Clearing Participant.

**Rule 13-2. Understanding Status of Submission of Clearing Margin  
Pertaining to Customer of Remote Trading Participant**

A Remote Trading Participant that has agreed as prescribed in Rule 31-2, Paragraph 1 must establish an arrangement to understand the status of submission of Clearing Margin to the Designated Clearing Participant by customers pertaining to said agreement.

**SECTION 2  
TRANSFER OF POSITIONS**

**Rule 14. Transfer of Positions**

A Trading Participant may transfer unsettled contracts for its proprietary account (excluding those in a contract month remaining unsettled on or after the last trading day of such contract month and contracts for clearing on government bond futures subject to cross margining; the same shall apply hereinafter in this section) and unsettled contracts entrusted by customers to another Trading Participant (hereinafter referred to as "Transfer of Positions").

**Rule 15. Transfer of Clearing Participant's Positions**

Matters pertaining to transfer of Futures/Options Contracts of Clearing Participants shall be prescribed in the Business Rules established by JSCC.

**Rule 16. Procedures for Transfer of Non-Clearing Participant's Positions**

1. A Non-Clearing Participant must, when transferring a position of unsettled contracts, receive approval from its Designated Clearing Participant for such transfer, and notify the Designated Clearing Participant the number of unsettled contracts for each issue to be transferred and the name of the Trading Participant that will be the transferee, by the deadline specified by such Designated Clearing Participant.
2. In the case of the preceding paragraph, the Non-Clearing Participant must receive approval from the transferee Trading Participant concerning the transfer of such position, and notify the number of contracts and the name of the Designated Clearing Participant of the Non-Clearing Participant by the deadline specified by such transferee Trading Participant.
3. In the case of the preceding paragraph, in the event the transferee Trading Participant is a Non-Clearing Participant, such transferee Trading Participant

must receive approval from its Designated Clearing Participant concerning the transfer of such position, and notify the Designated Clearing Participant of the details of the notification received pursuant to the provisions of the same paragraph by the deadline specified by such Designated Clearing Participant.

**Rule 17. Completion of Transfer of Positions**

1. In the case of the preceding rule, the transfer of positions shall be deemed complete at the time approved by JSCC.
2. Transfer of positions pertaining to Futures Contracts shall be carried out at the contract price or contract figure specified by OSE.

**SECTION 3**

**TRANSFER OF POSITIONS IN CASE OF SUSPENSION OF TRADING  
DUE TO INSOLVENCY**

**SUB-SECTION 1**

**TRANSFER OF POSITIONS IN CASE OF SUSPENSION OF TRADING  
DUE TO INSOLVENCY**

**Rule 18. Treatment of Unsettled Contracts for Insolvent Trading  
Participant's Proprietary Account**

1. OSE may, in cases where it suspends trading, etc. of a Trading Participant due to insolvency, have another Trading Participant designated by OSE effect resale, repurchase or exercise of options (including entrustment of the same; the same shall apply hereinafter) concerning unsettled contracts for the proprietary account of the Trading Participant subject to the suspension of trading due to insolvency, etc. (hereinafter referred to as the "Insolvent Trading Participant") (excluding those in a contract month remaining unsettled on or after the last trading day of such contract month; the same shall apply hereinafter in this section).
2. In the case of the preceding paragraph, an entrustment agreement between such other Trading Participant designated by OSE and the Insolvent Trading Participant shall be deemed to have been executed.
3. Notwithstanding the provisions of Paragraph 1, treatment of unsettled contracts for the proprietary account of a Trading Participant who is a Clearing Participant that is subject to suspension of obligation assumption pursuant to the provisions of the Business Rules of JSCC (limited to cases where JSCC determines that the Clearing Participant is insolvent or is likely to become insolvent, or as necessary for other specific reasons) shall be in accordance with the JSCC Futures/Options Clearing Margin Rules.

**Rule 19. Treatment of Unsettled Contracts Entrusted by a Customer of Insolvent Trading Participant**

1. OSE may, in cases where it suspends trading, etc. of a Trading Participant due to insolvency, have the unsettled contracts entrusted by the customer of Insolvent Trading Participant (excluding such customers enumerated in each of the items of Rule 21, Paragraph 1; the same shall apply hereinafter through the following rule) transferred to another Trading Participant designated by OSE, or have such other Trading Participant designated by OSE effect resale, repurchase or exercise of options concerning such contracts.
2. In cases where OSE arranges to have the unsettled contracts transferred to another Trading Participant as prescribed in the preceding paragraph (hereinafter in this section and in Chapter 3, Section 3 referred to as the "Transfer of Position during Trading Suspensions, etc.") or have such other Trading Participant effect resale, repurchase or exercise of options concerning unsettled contracts, the Insolvent Trading Participant must, subsequent to the suspension of trading, etc., immediately notify its customers that it has received such suspension of trading, etc. due to insolvency, etc., and other matters deemed necessary by OSE.

**Rule 20. Transfer of Unsettled Contracts Entrusted to an Insolvent Trading Participant by a Customer**

1. The Transfer of Position during Trading Suspensions, etc. as prescribed in Paragraph 1 of the preceding rule shall be carried out in case the Insolvent Trading Participant's customer applies to the other Trading Participant designated by OSE for such transfer of positions, and such other Trading Participant submits a written certification of receipt of such application and acceptance of such transfer of position to OSE by the deadline prescribed by OSE.
2. In the case of the preceding paragraph, OSE may request the Insolvent Trading Participant to submit a document stating matters that OSE deems necessary in order to transfer a position in cases of trading suspension, etc., and shall deliver such document to such other Trading Participant to receive the transfer of such Transfer of Position during Trading Suspensions, etc..
3. In cases of a Transfer of Position during Trading Suspensions, etc. as prescribed in Paragraph 1 pertaining to Futures Contracts, the settlement price or settlement figure of each contract month on the trading day that closes on the day before the date of such Transfer of Position during Trading Suspensions, etc. (in cases of a transaction completed in the night session of the trading day that closes on the date of such Transfer of Position during Trading

Suspensions, etc., such contract price or contract figure) shall be the contract figure for such unsettled contracts.

4. The resale, repurchase or exercise of options concerning unsettled contracts entrusted by a customer of an Insolvent Trading Participant as prescribed in Paragraph 1 of the preceding rule, shall be effected by another Trading Participant designated by OSE, in cases where the Insolvent Trading Participant submits a written certification that the Insolvent Trading Participant has received an instruction from its customer concerning resale, repurchase or exercise of options concerning the unsettled contract entrusted by such Insolvent Trading Participant's customer (excluding cases in the following paragraph), by the deadline specified by OSE.
5. OSE may, with respect to the unsettled contracts entrusted by the Insolvent Trading Participant's customer prescribed in Paragraph 1 of the preceding rule, have another Trading Participant designated by OSE effect the resale, repurchase or exercise of options, in case the document prescribed in Paragraph 1 or the preceding paragraph is not submitted by the deadline specified by OSE.
6. In the case of the preceding two paragraphs, an entrustment agreement between such other Trading Participant designated by OSE and the Insolvent Trading Participant shall be deemed to have been executed.

**Rule 21. Treatment of Unsettled Contracts Entrusted by a Customer, etc. whose Performance Obligations are Accelerated**

1. OSE may, in cases where it suspends trading due to insolvency, etc., have another Trading Participant designated by OSE effect resale, repurchase or exercise of options concerning unsettled contracts entrusted by an Insolvent Trading Participant's customer enumerated in each of the following items:
  - (1) A customer whose performance obligations against an Insolvent Trading Participant pertaining to Futures/Options Contracts have been accelerated;
  - (2) A customer that belongs, or may be deemed to substantially belong, to the same Corporate Group as the Insolvent Trading Participant, and to which OSE deems inappropriate to transfer the unsettled contracts as prescribed in Rule 19, Paragraph 1.
2. In the case of the preceding paragraph, an entrustment agreement between such other Trading Participant designated by OSE and the Insolvent Trading Participant shall be deemed to have been executed.

**Rule 22. Measures against Non-Clearing Participant in Cases where the Designated Clearing Participant Receives Suspension of Obligation Assumption due to Insolvency, etc.**

1. The provisions of Paragraphs 1 and 2 of Rule 18, Rule 19, Rule 20 and the preceding rule (excluding Paragraph 1, Item 2) shall be applied mutatis mutandis to a case where a Designated Clearing Participant is suspended from entrustment of brokerage for clearing of securities, etc. pursuant to the provisions of Rule 48, Paragraph 1 of the Trading Participant Regulations due to its suspension of obligation assumption pursuant to provisions of the Business Rules of JSCC (limited to cases where JSCC deems such Clearing Participant to be insolvent or likely to become insolvent, or as necessary for other specific reasons). In such a case, "suspension of trading due to insolvency" shall be deemed to be replaced with "suspension of entrustment of brokerage for clearing of securities, etc. due to suspension of obligation assumption based on JSCC's understanding that the Designated Clearing Participant is insolvent or is likely to become insolvent, or as necessary for other specific reasons," and "Insolvent Trading Participant" shall be deemed to be replaced with "Non-Clearing Participant in cases where the Designated Clearing Participant receives suspension of obligation assumption due to JSCC's understanding that the Designated Clearing Participant is insolvent or is likely to become insolvent, or as necessary for other specific reasons."
2. In the event the unsettled contracts of a Non-Clearing Participant is to be transferred to another Trading Participant designated by OSE or another Trading Participant designated by OSE is to effect resale, repurchase or exercise of options concerning such unsettled contracts as a measure against a Non-Clearing Participant who receives suspension of entrustment of brokerage for clearing of securities, etc. pursuant to the provisions of Rule 48, Paragraph 1 of the Trading Participant Regulations due to its Designated Clearing Participant's suspension of obligation assumption pursuant to the provisions of the Business Rules of JSCC (limited to cases where JSCC deems such Designated Clearing Participant to be insolvent or likely to become insolvent, or as necessary for other specific reasons), the right of agency of the Designated Clearing Participant in Rule 10, Paragraph 5, Item 1 shall be deemed to be terminated.

## **SUB-SECTION 2**

### **TREATMENT OF INSOLVENT TRADING PARTICIPANT'S CLEARING MARGIN FOR CUSTOMER ACCOUNT**

#### **Rule 23. Treatment of Insolvent Clearing Participant's Clearing Margin for Customer Account**

In the event OSE transfers the position entrusted by a customer of an Insolvent Trading Participant that is a Clearing Participant to another Trading Participant pursuant to the provisions of Rule 19, Paragraph 1, the treatment of such Clearing

Margin for Customer Account shall be in accordance with the JSCC Futures/Options Clearing Margin Rules.

**Rule 24. Treatment of Insolvent Non-Clearing Participant's Clearing Margin for Customer Account**

1. In the event OSE transfers the position during a trading suspension, etc. entrusted by a customer of an Insolvent Trading Participant that is a Non-Clearing Participant pursuant to the provisions of Rule 19, Paragraph 1 (the other Trading Participant who receives such transfer shall be referred to as the "Transferee Trading Participant during Trading Suspensions, etc." hereinafter in this sub-section), the Clearing Margin for Customer Account pertaining to such customer deposited to JSCC by such Insolvent Trading Participant who is a Non-Clearing Participant (limited to the portion of which such customer or its Applicant has the right to claim return pursuant to the provisions of the JSCC Futures/Options Clearing Margin Rules; the same shall apply in the following paragraph), shall be deemed to have been deposited to JSCC on the date of such transfer of position during a trading suspension, etc. by the Transferee Trading Participant during Trading Suspensions, etc. (in the event the Transferee Trading Participant during Trading Suspensions, etc. is a Non-Clearing Participant, such Transferee Trading Participant during Trading Suspensions, etc. and its Designated Clearing Participant) as its agent.
2. Among the Clearing Margin for Customer Account pertaining to such customer that is deemed to be deposited to JSCC pursuant to the provisions of the preceding paragraph, the amount deposited as the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit) shall be the lesser of the amounts prescribed in each of the following items:
  - (1) The amount equivalent to the sum of money and market value of securities that the customer deposited to the Insolvent Non-Clearing Participant as a Customer Margin; or
  - (2) The amount calculated by subtracting JSCC's cost of acquisition of yen using the foreign currency, or liquidation of the securities in lieu of cash margins, that have been deposited by the Insolvent Non-Clearing Participant as Clearing Margin (Replacement Deposit) for the Non-Clearing Participant's customer account from the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit) for the Non-Clearing Participant's customer account that the Insolvent Non-Clearing Participant had deposited to JSCC pursuant to the provisions of the JSCC Futures/Options Clearing Margin Rules, and pro rating such amount in accordance with the amount equivalent to the sum of money and market value of securities deposited by each customer to the Insolvent

Non-Clearing Participant as Customer Margin.

3. The provisions of the preceding two paragraphs shall be applied mutatis mutandis to cases where the Non-Clearing Participant is suspended from entrustment of brokerage for clearing of securities, etc. pursuant to the provisions of Rule 48, Paragraph 1 of the Trading Participant Regulations due to its Designated Clearing Participant's receipt of suspension of taking of obligations assumption pursuant to the provisions of the Business Rules of JSCC (limited to cases where JSCC deems such Designated Clearing Participant to be insolvent or likely to become insolvent, or it is necessary for other specific reasons) In this case, "Rule 19, Paragraph 1" shall be "Rule 19, Paragraph 1 as applied mutatis mutandis in Rule 22, Paragraph 1," and "Insolvent Non-Clearing Trading Participant" shall be "Non-Clearing Participant that is suspended from entrustment of brokerage for clearing of securities, etc. due to its Designated Clearing Participant's receipt of suspension of obligation assumption by JSCC's determination that it is insolvent or is likely to become insolvent, or as necessary for other specific reasons."

**Rule 25. Liquidation of Clearing Margin for Replacement Deposits, etc.**

1. In the event OSE decides to subject the unsettled contracts entrusted by a customer of the Insolvent Non-Clearing Participant to a resale, repurchase or exercise of options pursuant to the provisions of Rule 19, Paragraph 1 or Rule 21, Paragraph 1, or to have the position during a trading suspension, etc. entrusted by a customer of an Insolvent Non-Clearing Participant transferred pursuant to the provisions of Rule 19, Paragraph 1, if JSCC decides to acquire yen using all or part of the foreign currency, or liquidate all or part of the securities, that have been deposited as Non-Clearing Participant's Clearing Margin for customer account (Replacement Deposit) in a manner deemed appropriate by JSCC, an entrustment agreement between the Designated Clearing Participant of the Insolvent Non-Clearing Participant, Insolvent Non-Clearing Participant, its customer, and JSCC shall be deemed to have been executed.
2. In the event OSE decides to subject the unsettled contracts entrusted by a customer of the Non-Clearing Participant to a resale, repurchase or exercise of options pursuant to the provisions of Rule 19, Paragraph 1 or Rule 21, Paragraph 1, as applied mutatis mutandis in Rule 22, Paragraph 1, or to have the position during a trading suspension, etc. entrusted by a customer of a Non-Clearing Participant transferred, if JSCC decides to acquire yen using all or part of the foreign currency, or liquidate all or part of the securities, that have been deposited as Non-Clearing Participant's Clearing Margin for customer account (Replacement Deposit) in a manner deemed appropriate by

JSCC, an entrustment agreement between the Designated Clearing Participant of the Non-Clearing Participant, Non-Clearing Participant, its customer and JSCC shall be deemed to have been executed.

3. In the case of Paragraph 1, if the Broker is a customer prescribed in each of the items of Rule 21, Paragraph 1 and JSCC decides to acquire yen using all or part of the foreign currency, or liquidate all or part of the securities, that have been deposited as Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker) in a manner deemed appropriate by JSCC, an entrustment agreement between the Designated Clearing Participant of the Insolvent Non-Clearing Participant, Insolvent Non-Clearing Participant, its customer and the customer's Applicant, and JSCC.
4. In the case of Paragraph 2, if the Broker is a customer prescribed in Rule 21, Paragraph 1, Item 1, as applied mutatis mutandis in Rule 22, Paragraph 1 and JSCC decides to acquire yen using all or part of the foreign currency, or liquidate all or part of the securities, that have been deposited as Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker) in a manner deemed appropriate by JSCC, an entrustment agreement between the Designated Clearing Participant of the Non-Clearing Participant, Non-Clearing Participant, its customer and the customer's Applicant, and JSCC.

**Rule 26. Special Regulations on Treatment of Clearing Margin for Replacement Deposits**

1. In the event JSCC acquires yen using foreign currency or liquidates securities pursuant to the provisions of Paragraph 1 or 2 of the preceding rule, the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit) shall be the money other than the foreign currency pertaining to the acquisition, and securities other than the securities subject to liquidation, that have been deposited to JSCC as the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit) by the Insolvent Non-Clearing Participant or the Non-Clearing Participant in Paragraph 2 of the preceding rule, and the amount of money calculated by subtracting the cost of acquisition from the money after the acquisition and subtracting the cost of liquidation from the money obtained from the liquidation.
2. In the event JSCC acquires yen using the foreign currency or liquidates securities pursuant to the provisions of Paragraph 3 or 4 of the preceding rule, the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Margin by Broker) shall be the money other than the foreign currency pertaining to acquisition, and securities other than the securities

subject to liquidation, that have been deposited to JSCC as the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Margin by Broker) by the Insolvent Non-Clearing Participant or the Non-Clearing Participant in Paragraph 4 of the preceding rule, and the amount of money calculated by subtracting the cost of acquisition from the money after the acquisition and subtracting the cost of liquidation from the money obtained from the liquidation.

**Rule 27. Special Regulations on Right to Claim Return of Clearing Margin for Customer Account**

1. A customer's right to claim return of Clearing Margin for customer account deemed to be deposited to JSCC pursuant to the provisions of Rule 24, Paragraph 1 (including mutatis mutandis application in Paragraph 3 of the same rule), shall be exercised by the Transferee Trading Participant during Trading Suspension, etc., prescribed in Paragraph 1 of the same rule as its agent.
2. In the event OSE decides to subject the unsettled contracts entrusted by a customer of an Insolvent Non-Clearing Participant (in the case of mutatis mutandis application in Rule 22, Paragraph 1, referring to the Non-Clearing Participant whose Designated Clearing Participant is suspended from obligation assumption due to determination by JSCC that it is insolvent, is likely to become insolvent, or it is necessary due to other specific reasons) to a resale, repurchase or exercise of options pursuant to the provisions of Rule 19, Paragraph 1, or Rule 21, Paragraph 1 (including mutatis mutandis application in Rule 22, Paragraph 1), or to transfer the positions during a trading suspension, etc., entrusted by the Insolvent Non-Clearing Participant's customer pursuant to the provisions of Rule 19, Paragraph 1 (including mutatis mutandis application in Rule 22, Paragraph 1), the right to claim return of the Clearing Margin for customer account pertaining to a customer of an Insolvent Non-Clearing Participant (excluding customers whose position was subjected to Transfer of Position during Trading Suspensions, etc. pursuant to provisions of Rule 19, Paragraph 1 (including mutatis mutandis application in Rule 22, Paragraph 1) may be exercised directly against JSCC as prescribed in the JSCC Futures/Options Clearing Margin Rules. In this case, if the Clearing Margin for Customer Account pertaining to such customer is deposited as a Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit), the amount shall be limited to the lesser of the amounts prescribed in each item of Rule 24, Paragraph 2.

**Rule 28. Special Regulations on Right to Claim Return of Clearing Margin**

**for Customer Account of Broker**

In the event OSE decides to subject the unsettled contracts entrusted by an Applicant of an Insolvent Non-Clearing Participant's customer to a resale, repurchase or exercise of options pursuant to the provisions of Rule 21, Paragraph 1 (including mutatis mutandis application in Rule 22, Paragraph 1), if the Broker is a customer prescribed in each of the items of Rule 21, Paragraph 1, the right to claim return held by such Applicant of the Broker may be exercised directly against JSCC as prescribed in the JSCC Futures/Options Clearing Margin Rules.

**SUB-SECTION 3  
MISCELLANEOUS PROVISIONS**

**Rule 29. Treatment of Other Matters concerning Transfer of Positions during Trading Suspensions, etc.**

In addition to the provisions of Rule 18 through the preceding rule, necessary matters pertaining to Transfer of Positions during Trading Suspension, etc. shall be determined by OSE on a case-by-case basis.

**CHAPTER 3  
RULES PERTAINING TO SPECIAL REGULATIONS OF BROKERAGE  
AGREEMENT STANDARDS**

**SECTION 1  
MARGIN**

**Rule 30. Submission or Deposit of Margin**

1. A customer shall, in the event a sale or purchase of a Futures Contract or sale of an Options Contract entrusted by such customer is effected, and the Aggregate Margin Deposit (meaning the aggregate amount of the deposited margin as prescribed in Rule 33, Paragraph 1; the same shall apply hereinafter) is less than the Required Margin (meaning the customer's required margin amount as prescribed in the JSCC Futures/Options Clearing Margin Rules (in the event a customer is subdivided discretionally, the sum of the required margin amount for each such subdivision; the same shall apply hereinafter), or the money submitted or deposited as margin by the customer (in the event the money is submitted or deposited in foreign currency, the amount calculated by multiplying the amount converted into yen at the Telegraphic Transfer Buying rate per unit of such currency in the Tokyo foreign exchange market on the day before the date of calculation by the rate prescribed in the JSCC Futures/Options Clearing Margin Rules; the same shall apply hereinafter in this paragraph, Rule 33, Paragraph 1 and Rule 35, Paragraph 1) is less than the

amount of cash to be paid by the customer (meaning the amount referred to in Rule 33, Paragraph 2 when the amount to be paid or received is negative; the same shall apply hereinafter), submit or deposit as margin to the Trading Participant, the greater of the difference between the Aggregate Margin Deposit and the Required Margin (hereinafter referred to as the "Aggregate Margin Deficiency") or the difference between the amount of money submitted or deposited as margin by the customer and the cash to be paid by the customer (hereinafter referred to as the "Cash Deficiency"), by the deadline designated by the Trading Participant, on or before the day following the date such deficiency has occurred (in the event such customer is a non-resident, the second day after the day when such deficiency has occurred); provided, however, that, if the required margin amount is raised pursuant to the provisions of the JSCC Futures/Options Clearing Margin Rules, where a Trading Participant (in the event the Trading Participant is a Non-Clearing Participant, such Trading Participant and its Designated Clearing Participant) and its customer (in the event the customer is a Broker, such customer and the Applicant) agree that the Trading Participant (in the event the Trading Participant is a Non-Clearing Participant, its Designated Clearing Participant) deposits with JSCC its own money equivalent to such raised amount, and the Trading Participant (in the event the Trading Participant is a Non-Clearing Participant, its Designated Clearing Participant) applies to do so with JSCC, such amount shall be deducted from the required margin amount.

2. A customer may submit or deposit securities in lieu of cash as Margin; provided, however, that Margin equivalent to Cash Deficiency may not be deposited in securities in lieu of cash.
3. Matters concerning replacement securities prescribed in the preceding paragraph shall be as prescribed in Appendix 1 of the JSCC Futures/Options Clearing Margin Rules.
4. In cases where a customer submits or deposits the securities enumerated in each of the items below, such submission or deposit shall be made by book-entry transfer pursuant to the Act on Transfer of Bonds, Securities, etc. (Act No. 75 of 2001), and prior consent from the Trading Participant shall be obtained when making such submission or deposit:
  - (1) Stocks (except foreign stocks), preferred equity contribution securities issued by cooperative structured financial institutions, investment trust beneficiary certificates, beneficiary certificates of a beneficiary certificate-issuing trust, bonds (excluding bonds with subscription warrants) and convertible bonds
  - (2) Investment securities that are listed on a domestic financial instruments exchange
5. In cases where a customer is to submit or deposit foreign stocks, foreign

investment trust beneficiary certificates, foreign investment securities, foreign stock depositary receipts, or beneficiary certificates of a foreign beneficiary certificate-issuing trust, such submission or deposit shall be effected by book-entry transfer as prescribed in the "Business Regulations Relating to Depository and Book-Entry Transfer of Foreign Stocks Certificates, etc." specified by JASDEC, and prior consent from the Trading Participant shall be obtained when making such submission or deposit.

6. In cases where a customer is to submit or deposit Foreign Government Bond Securities, prior consent from the Trading Participant shall be obtained.
7. In cases where a customer is to submit or deposit foreign currency, prior consent from the Trading Participant shall be obtained.

**Rule 31. Additional Submission or Deposit of Margin**

A Trading Participant must, in the event a customer incurs Aggregate Margin Deficiency or Cash Deficiency, require the customer to submit or deposit an amount equivalent to or greater than the greater of the two amounts as Margin by the deadline specified by the Trading Participant which shall be on or before the day following the day such deficiency has occurred (in the event such customer is a non-resident, the second day after the day when such deficiency has occurred). In this case, the Margin equivalent to Cash Deficiency may not be deposited in securities in lieu of cash.

**Rule 31-2. Special Provisions for Submission of Clearing Margin Pertaining to Customer of Remote Trading Participant**

1. If a customer of a Remote Trading Participant has agreed in advance with the Remote Trading Participant and its Designated Clearing Participant, such customer may submit or additionally submit Clearing Margin prescribed in Rule 30, Paragraph 1 and the preceding rule to the Designated Clearing Participant in place of the Remote Trading Participant.
2. If the customer submits Clearing Margin pursuant to the provisions of the preceding paragraph, such submission shall be deemed as the submission or additional submission of Clearing Margin pursuant to the provisions of Rule 30, Paragraph 1 and the preceding rule.
3. The provisions of Paragraphs 4 through 6 of Rule 30 shall be applied mutatis mutandis to cases where a customer submits or additionally submits replacement securities to the Designated Clearing Participant pursuant to the agreement of Paragraph 1. In such cases, "Trading Participant" shall be deemed to be replaced with "Designated Clearing Participant of the Remote Trading Participant".

**Rule 31-3. Reporting Duty on Status of Submission of Clearing Margin Pertaining to Customer of Remote Trading Participant**

A customer who submits or additionally submits Clearing Margin to the Designated Clearing Participant pursuant to the provisions of Paragraph 1 of the preceding rule must report to the Remote Trading Participant the status of such submission of Clearing Margin to the Designated Clearing Participant, according to the instruction of the Remote Trading Participant.

**Rule 32. Classification of Margin**

1. Of the Margin submitted or deposited by a customer to a Trading Participant pursuant to the provisions of Rules 30 and 31, the money and securities other than the amount equivalent to the cash to be paid by the customer shall be deemed to have been submitted by the customer as Clearing Margin; provided, however, that, in the event consent (meaning consent as prescribed in Article 66 of the Cabinet Office Ordinance Relating to Financial Instruments Exchange, etc. (Cabinet Office Ordinance No. 54 of 2007)) from such customer is obtained, it may be deemed to have been deposited as Customer Margin.
2. In the event prescribed in the preceding paragraph, if the customer is a Broker, the classification as prescribed in each of the following items pertaining to the money or securities submitted or deposited by such customer as Clearing Margin or Customer Margin must be clearly stated:
  - (1) Money or securities submitted by an Applicant; or
  - (2) The customer's own money or securities submitted or deposited in lieu of cash or securities deposited by an Applicant.

**Rule 33. Method of Computation of Aggregate Margin Deposit**

1. The Aggregate Margin Deposit shall be the amount obtained by adding or subtracting the amount of cash to be paid or received by a customer as prescribed in the following paragraph to or from the sum of money and securities evaluated at the substitution price (meaning an amount not exceeding such amount calculated by multiplying the market value on the day preceding the date of calculation by the rate prescribed in the Attachment of the JSCC Futures/Options Clearing Margin Rules (in the event such securities are Foreign Government Bond Securities, the amount calculated by multiplying the market value by the rate prescribed in Appendix 1 of the JSCC Futures/Options Clearing Margin Rules and then converted into yen at the Telegraphic Transfer Buying rate per unit of the foreign currency in the Tokyo foreign exchange market that is used to evaluate such Foreign Government Bond Securities on the day before the date of calculation)) submitted or deposited by the customer as Margin for the Futures/Options Contract Account.

2. The amount of cash to be paid or received by a customer shall be the amount of money equivalent to such amount calculated by adding or subtracting the sum of profit or loss at settlement of Futures Contracts (meaning, in the case of government bond futures contracts, the amount of money paid or received for settlement of government bond futures contracts prescribed in Rule 14-2, Paragraph 1 or 2) entrusted by the customer that is payable or receivable and the premiums for Options Contracts (for index options contracts, meaning the amount of money paid or received for settlement as prescribed in Rule 27 of the Brokerage Agreement Standards) that is payable or receivable to or from the implicit profit or loss calculated on a certain day prescribed in the following paragraph, and subtracting the amount of money that should be incurred by the customer that the Trading Participant deems necessary. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where the average value (hereinafter referred to as "average price") of unit prices of transactions effected for the same issue on the same day may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc. (Cabinet Office Ordinance No.52 of 2007), the premiums may be calculated based on average prices as specified by OSE.
3. The amount of implicit profit or loss shall be the amount calculated by subtracting the sum of the amount equivalent to loss incurred due to volatility in the market of government bond futures contracts based on entrustment by the customer (see Note 1 below), the amount equivalent to loss incurred due to volatility in the market of index futures contracts based on entrustment by the customer (see Note 2 below), and the sum of payments which are made pursuant to the provisions of Rule 36 from the sum of the amount equivalent to profit gained from the volatility in the market of government bond futures contracts based on entrustment by the customer (see Note 3) and the amount equivalent to profit gained from the volatility in the market of index futures contracts based on entrustment by the customer (see Note 4). In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., average prices may be used for the contract price or contract figure as specified by OSE.

(Note 1) "The amount equivalent to loss incurred due to volatility in the market of government bond futures contracts based on entrustment by

the customer" means, for unsettled contracts of the customer (excluding those in a contract month remaining unsettled at closing of the last trading day of such contract month), the amount calculated by multiplying the difference between the contract price (or contract figure in the case of mini contracts; the same shall apply hereinafter) of the unsettled contract and the settlement price (or settlement figure in the case of mini contracts; the same shall apply hereinafter) on the trading day ending on the date of calculation by one-hundredth of JPY one hundred (100) million (or JPY one hundred thousand (100,000) in the case of mini contracts).

(Note 2) "The amount equivalent to loss incurred due to volatility in the market of index futures contracts based on entrustment by the customer" means, for unsettled contracts of the customer (excluding those in a contract month remaining unsettled at closing of the last trading day of such contract month), the amount calculated by multiplying the difference between the contract figures of the unsettled contract and the settlement figure on the trading day ending on the date of calculation by JPY ten thousand (10,000) for large contracts on TOPIX and contracts on the RNP Index, TOPIX Banks Index, Nikkei 225 VI, TOPIX Dividend Index, and TOPIX Core30 Dividend Index; JPY one thousand (1,000) for large contracts on Nikkei Average, mini contracts on TOPIX, contracts on TSE Mothers Index, TOPIX Core30, TSE REIT Index, and Nikkei 225 Dividend Index; and JPY one hundred (100) for mini contracts on Nikkei Average and contracts on JPX-Nikkei Index 400, DJIA, Nifty 50, TAIEX and FTSE China 50 Index.

(Note 3) "The amount equivalent to profit gained from the volatility in the market of government bond futures contracts based on entrustment from the customer" means, for unsettled contracts of the customer (excluding those in a contract month remaining unsettled at closing of the last trading day of such contract month), the amount calculated by multiplying the difference between the contract price of the unsettled contract and the settlement price on the trading day ending on the date of calculation by one-hundredth of JPY one hundred (100) million (or JPY one hundred thousand (100,000) in the case of mini contracts).

(Note 4) "The amount equivalent to profit gained from the volatility in the

market of index futures contracts based on entrustment by the customer" means, for unsettled contracts of the customer (excluding those in a contract month remaining unsettled at closing of the last trading day of such contract month), the amount calculated by multiplying the difference between the contract figures of the unsettled contract and the settlement figure on the trading day ending on the date of calculation by; JPY ten thousand (10,000) for large contracts on TOPIX and contracts on the RNP Index, TOPIX Banks Index, Nikkei 225 VI, TOPIX Dividend Index, and TOPIX Core30 Dividend Index; JPY one thousand (1,000) for large contracts on Nikkei Average, mini contracts on TOPIX, and contracts on TSE Mothers Index, TOPIX Core30, TSE REIT Index, and Nikkei Stock Average Dividend Index; and JPY one hundred (100) for mini contracts on Nikkei Average and contracts on JPX-Nikkei Index 400, DJIA, Nifty 50, TAIEX and FTSE China 50 Index.

**Rule 34. Right to Claim Return of Clearing Margin**

1. A customer shall, in cases prescribed in each of the following items, have the right to claim return of the amount equivalent to the amount calculated by subtracting the unfulfilled portion of the obligation pertaining to Futures/Options Contracts owed by the customer to the Trading Participant (hereinafter referred to as the "Customer's Unfulfilled Obligations" in this rule) from the Clearing Margin as prescribed in each such item:
  - (1) If the Clearing Margin submitted by the customer is directly deposited:

Of the directly deposited Clearing Margin (meaning the Clearing Participant's Clearing Margin for Customer Account (Direct Deposit) or Non-Clearing Participant's Clearing Margin for Customer Account (Direct Deposit)) for such customer, the amount prescribed in (a) or (b) below:

    - (a) If the customer has deposited money as Clearing Margin, the amount of such money; or
    - (b) If the customer has deposited securities in lieu of cash as Clearing Margin, such securities.
  - (2) If the customer deposits Customer Margin or submits Clearing Margin, and a replacement deposit of Clearing Margin is made:

Of the Clearing Margin for replacement deposits (meaning the Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit) or Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit); the same shall apply hereinafter) for

such customer, the amount prescribed in (a) or (b) below:

- (a) If money is deposited as Clearing Margin for replacement deposit of such customer, the amount of money equivalent to such Customer Margin deposited or Clearing Margin submitted by the customer; or
  - (b) If securities are deposited in lieu of cash as Clearing Margin for replacement deposits of such customer, the amount of securities equivalent to such Customer Margin deposited or Clearing Margin submitted by the customer.
2. The right to claim return of Clearing Margin held by the customer pursuant to the provisions of the preceding paragraph shall be exercised by the Trading Participant (in the event such Trading Participant is a Non-Clearing Participant, such Non-Clearing Participant and its Designated Clearing Participant) as its agent.
3. In the event the Trading Participant is a Clearing Participant, the right to claim return of the portion of the Clearing Margin equivalent to the Customer's Unfulfilled Obligations prescribed in Paragraph 1 (excluding the amount equivalent to the unfulfilled portion of the obligations pertaining to Futures/Options Contracts entrusted by the customer that such Clearing Participant is to pay or deliver to JSCC) shall be held by such Clearing Participant.
4. In the event the Trading Participant is a Non-Clearing Participant, the right to claim return of the portion of the Clearing Margin equivalent to the Customer's Unfulfilled Obligations prescribed in Paragraph 1 shall be held by such Non-Clearing Participant for the portion excluding the unfulfilled obligation of the Futures/Options Contracts entrusted by the customer that such Non-Clearing Participant is to pay or deliver to its Designated Clearing Participant, and by its Designated Clearing Participant for such unfulfilled portion.

**Rule 35. Restriction on Withdrawal of Margin**

1. A Trading Participant must not permit withdrawal of money or securities submitted or deposited by a customer as Margin; provided, however, that this shall not apply in cases where any of the following items is applicable for the amount of money or securities not exceeding the amount prescribed in each such item:
  - (1) Where the aggregate amount of the customer's Margin Deposit at the time of withdrawal exceeds the Required Margin, securities equivalent to the amount calculated by dividing such excess by the rate prescribed in the Appendix 1 of the JSCC Futures/Options Clearing Margin Rules (for

- Foreign Government Bond Securities, the amount calculated by dividing such excess converted to US dollar using the Telegraphic Transfer Selling rate per unit of the foreign currency in the Tokyo foreign exchange market that is used to evaluate such Foreign Government Bond Securities by the rate prescribed in Appendix 1 of the JSCC Futures/Options Clearing Margin Rules; the same shall apply in the following item), or the amount of money equivalent to whichever is smaller of such excess amount or excess cash (meaning the excess amount where the amount of money submitted or deposited as Margin exceeds the cash payable by such customer; the same shall apply hereinafter) (in the case of foreign currency, the amount calculated by multiplying the amount converted into yen at the Telegraphic Transfer Buying rate per unit of such currency in the Tokyo foreign exchange market on the day before the date of calculation by the rate prescribed in the JSCC Futures/Options Clearing Margin Rules);
- (2) Where the securities submitted or deposited as Margin by such customer is to be replaced with money or other securities, securities equivalent to the amount calculated by dividing such amount of money or other securities (meaning the amount evaluated at the Replacement Price as prescribed in Rule 33, Paragraph 1; the same shall apply hereinafter in this paragraph) by the rate prescribed in Appendix 1 of the JSCC Futures/Options Clearing Margin Rules.
  - (3) Where the amount of money equivalent to the excess cash portion of the money submitted or deposited as Margin by the customer is to be replaced with securities, the amount of money equivalent to the amount of such securities.
2. Notwithstanding the provisions of the preceding paragraph, a Trading Participant may permit withdrawal of money or securities prescribed in any of the following items where such item is applicable.
- (1) If the customer is seeking to settle the purchase or sale of underlying securities effected by exercise of securities options by delivery of money submitted or deposited by such customer as Margin, where the Aggregated Margin Deposit (excluding the amount of money pertaining to such delivery) exceeds the Required Margin (excluding the amount pertaining to such exercise of options), and excess cash remains subsequent to withdrawal of money for such delivery;  
The money pertaining to such delivery;
  - (2) If the customer is seeking to settle the purchase and sale of underlying securities effected by exercise of securities options by delivery of such security submitted or deposited by such customer as Margin, where the Aggregated Margin Deposit (excluding the amount equivalent to the

securities pertaining to such delivery) exceeds the Required Margin (excluding the amount pertaining to such exercise of options), the underlying security pertaining to such delivery.

**Rule 36. Payout of Implicit Profits**

1. A Trading Participant may, upon request from a customer, pay out cash equivalent to the amount of implicit profit for the account of the customer.
2. The amount of payout referred to in the preceding paragraph shall be limited to the amount of such excess when the Aggregate Margin Deposit of the customer exceeds the Required Margin; provided, however, that this shall not apply to each of the following items:
  - (1) Where the customer is to submit or deposit such amount of payout as Margin to the Trading Participant; or
  - (2) Where the customer is to settle purchase and sale of underlying securities effected by exercise of securities options by delivery of such amount of payout, and the Aggregate Margin Deposit of the customer (excluding such amount to be delivered) exceeds the Required Margin (excluding such amount pertaining to the exercise of the option).

**SECTION 2**  
**TRANSFER OF POSITIONS**

**Rule 37. Procedures for Transfer of Customer's Positions**

1. A customer must, if it is to entrust transfer of positions of unsettled contracts, obtain prior approvals concerning such entrustment of transfer of positions from the transferor Trading Participant with the current Futures/Options Trading Account and the transferee Trading Participant.
2. In the case of the preceding paragraph, such customer must report the number of unsettled contracts to be transferred for each issue, and the name of the transferee Trading Participant to the transferor Trading Participant, by the deadline specified by the transferor Trading Participant, and report such number and the name of the transferor Trading Participant to the transferee Trading Participant by the deadline specified by the transferee Trading Participant.
3. The transfer of positions pertaining to Futures Contracts shall be conducted using the settlement figure for each contract month on the trading day preceding the trading day of the position transfer as the contract figure pertaining to such unsettled contracts.
4. When the transfer of positions have been effected, it shall be deemed that the entrustment of such unsettled contracts between the customer and the

transferor Trading Participant has terminated, and the entrustment of such unsettled contracts between the customer and the transferee Trading Participant has become newly effective, simultaneously.

5. For unsettled contracts, in cases where a customer simultaneously holds short positions and long positions in the same issue and settles all or part of such positions (excluding cases of settlement by resale or repurchase), such customer must notify the Trading Participant of the issue and number of contracts to be settled by the time designated by the Trading Participant by the deadline prescribed by JSCC on the day on which the trading day on which such settlement is conducted ends.

### SECTION 3

#### TRANSFER OF POSITION IN CASE OF SUSPENSION OF TRADING DUE TO INSOLVENCY

##### **Rule 38. Notice by Insolvent Trading Participant**

1. In the event OSE decides to transfer positions during a trading suspension, etc. to another Trading Participant or to have another Trading Participant resale, repurchase or exercise options pertaining to unsettled contracts pursuant to the provisions of Rule 18, Paragraph 1 or Rule 19, Paragraph 1 (including mutatis mutandis application in Rule 22, Paragraph 1), the Insolvent Trading Participant (including Non-Clearing Participant whose Designated Clearing Participant is suspended from obligations assumption due to determination by JSCC that it is insolvent, is likely to become insolvent, or it is necessary due to other specific reasons) must, subsequent to receiving such suspension of trading due to insolvency (including suspension of entrustment of brokerage for clearing of securities, etc. for Non-Clearing Participant due to its Designated Clearing Participant's suspension of obligations assumption pursuant to the determination by JSCC that it is insolvent, is likely to become insolvent, or as necessary due to other specific reasons), immediately notify the customer of the fact and other matters deemed necessary by OSE.
2. In the event the customer who receives the notice prescribed in the preceding paragraph is a Broker, such customer must notify its Applicant of matters in accordance with such notice.

##### **Rule 39. Procedures pertaining to Transfer of Position in Insolvency for Customers**

1. A customer (excluding customers prescribed in each of the items of Rule 21,

Paragraph 1; the same shall apply hereinafter in this rule and the following rule) must, if it receives the notice prescribed in the provisions of Paragraph 1 of the preceding rule, and wishes for a Transfer of Position during Trading Suspensions, etc., apply to one of the other Trading Participants designated by OSE for the Transfer of Position during Trading Suspensions, etc., and obtain its approval by the deadline specified by OSE.

2. A customer who obtains approval for Transfer of Position during Trading Suspensions, etc. prescribed in the preceding paragraph shall open a Futures/Options Trading Account with the Transferee Trading Participant pursuant to the provisions of the Brokerage Agreement Standards; provided, however, that this shall not apply if the customer has already opened a Futures/Options Trading Account with the Transferee Trading Participant at the time of such trading suspension, etc.

**Rule 40. Procedures Pertaining to Resale, Repurchase or Exercise of Options for Customer**

A customer shall, if it receives the notice prescribed in Rule 38, Paragraph 1 and wishes for a resale, repurchase or exercise of options pertaining to unsettled contracts, instruct the Insolvent Trading Participant (Non-Clearing Participant in the event the Designated Clearing Participant is suspended from obligation assumption due to determination by JSCC that it is insolvent, is likely to become insolvent, or as necessary due to other specific reasons) of the fact by the deadline specified by OSE.

**Rule 41. Special Regulations on Margin**

1. In the event the Transfer of Position during Trading Suspensions, etc. as prescribed in Rule 39, Paragraph 1 has been effected, a customer shall be deemed to have submitted the Clearing Margin for Customer Account for the customer (limited to the portion of which the customer or its Applicant has the right to claim return, as prescribed in the JSCC Futures/Options Clearing Margin Rules; the same shall apply in the following paragraph) deposited to JSCC by the Insolvent Trading Participant (Non-Clearing Participant in the event the Designated Clearing Participant is suspended from obligation assumption due to determination by JSCC that it is insolvent, is likely to become insolvent, or as necessary due to other specific reasons; the same shall apply hereinafter in this rule) to the transferee Trading Participant during the trading suspension, etc. as Clearing Margin.
2. In cases of the preceding paragraph, for Clearing Margin deposited as Replacement Deposit for such customer, the amounts prescribed in each of the following item, whichever is smaller, shall be deemed to have been submitted as Clearing Margin.

- (1) The amount equivalent to the sum of money (in the event the money is submitted or deposited in foreign currency, the amount converted into yen at the Telegraphic Transfer Buying rate per unit of such currency in the Tokyo foreign exchange market on the day before the date of calculation; the same shall apply hereinafter in this paragraph) and market value of securities (meaning the amount evaluated at the market value on the day before the date of calculation (in the event such securities are Foreign Government Bond Securities, the amount converted into yen at the Telegraphic Transfer Buying rate per unit of the foreign currency in the Tokyo foreign exchange market that is used to evaluate such Foreign Government Bond Securities on the day before the date of calculation of such market value); the same shall apply hereinafter in this paragraph) that have been deposited by the customer to Insolvent Trading Participant as Customer Margin (including the sum of money and market value of securities pertaining to the Clearing Margin submitted by such customer to the Insolvent Trading Participant as Clearing Margin and to be deposited to JSCC); or
- (2) The amount calculated by subtracting JSCC's cost of acquisition of yen using the foreign currency, or liquidation of the securities deposited by the Insolvent Trading Participant as Clearing Margin for Replacement Deposits from the Clearing Margin for Replacement Deposits deposited to JSCC by the Insolvent Trading Participant, and pro rating such amount in accordance with the amount equivalent to the sum of money and market value of securities deposited by each customer to the Insolvent Trading Participant as Customer Margin (including the sum of money and market value of securities pertaining to the Clearing Margin submitted by such customer to the Insolvent Trading Participant as Clearing Margin and to be deposited to JSCC).

**Rule 42. Special Regulations on Return of Margin**

Where the Transfer of Position during Trading Suspensions, etc. prescribed in Rule 39, Paragraph 1 has been effected, and a claim for return of Clearing Margin as prescribed in Paragraph 2 of the preceding rule is received from the customer on or after such date, the Transferee Trading Participant during trading suspensions, etc. shall, return the same in cash.

**Rule 43. Special Regulations on Return of Clearing Margin**

A customer may, in the event the Transfer of Position during Trading Suspensions, etc. as prescribed in Rule 39, Paragraph 1 has not been effected, exercise the right to claim return directly against JSCC, as prescribed in the JSCC Futures/Options Clearing Margin Rules.

**SECTION 3**  
**CONTRACT BETWEEN CUSTOMER AND APPLICANT**

**Rule 44. Contract between Customer and Applicant**

If a customer is a Broker, the customer shall execute a contract with its Applicant, in accordance with the matters prescribed in these rules.

**CHAPTER 4**  
**MISCELLANEOUS PROVISIONS**

**Rule 45. Application to Brokerage for Clearing of Securities, etc.**

With respect to commissioning of entrustment of brokerage for clearing of securities, etc. pertaining to Futures/Options Contracts, the provisions of Rule 3, Chapter 2, and Chapter 3 shall be applied deeming the Trading Participant who entrusted brokerage for clearing of securities, etc. shall be deemed to be the person acting as an agent for such Futures/Options Contracts.

**Rule 46. Determination of Necessary Matters concerning Margin and Transfer of Unsettled Contracts**

OSE may prescribe, in addition to matters prescribed in these Rules, relevant handling of margin and transfer of unsettled contracts pertaining to Futures/Options Contracts in its rules where necessary.

## **Rules Regarding Trading Participant Fees, etc.**

(As of April 1, 2018)

Osaka Exchange, Inc.

### **Rule 1. Purpose**

These Rules shall prescribe necessary matters concerning the amount of basic fees, trading participant fees including trading fees, trading participation fees and trading participant security money pursuant to Rule 9, Paragraph 1, Rule 32, Paragraph 4, and Rule 33-2, Paragraph 4 of the Trading Participant Regulations.

### **Rule 2. Trading Participant Fees**

1. Trading participant fees prescribed in Rule 9, Paragraph 1 of the Trading Participant Regulations mean basic fees, trading fees, derivatives trading system connection fees, give-up fees, cancellation fees, and position transfer fees.
2. The amount of basic fees (monthly) shall be the amount specified in the following items in accordance with the classification of Trading Participants enumerated in each of the following items. Basic fees for the month containing the day on which trading qualification of a Trading Participant is obtained or waived shall be calculated pro rata on a daily basis.
  - (1) A Futures, etc. Trading Participant:  
JPY 600,000  
However, where a Futures, etc. Trading Participant falls under cases enumerated a. or b., the amount specified in a. or b. shall be subtracted.
    - a. Where a Futures, etc. Trading Participant did not place orders (including correction and cancellation orders; the same shall apply hereinafter) for government bond futures or government bond futures options in the OSE market in the previous month:  
JPY 200,000
    - b. Where a Futures, etc. Trading Participant did not place orders for index futures, security options, or index options in the OSE market in the previous month:  
JPY 200,000
  - (2) A Government Bond Futures, etc. Trading Participant:  
JPY 200,000
  - (3) An FX Trading Participant:  
JPY 30,000
3. The amount of trading fees for transactions enumerated in the following items on the OSE

markets for each Trading Participant shall be the aggregated amount calculated by multiplying the trading volumes stipulated in each item (hereinafter referred to as "Basis for Calculation of Trading Fee Rates") by the trading fee rate, and the basis for calculation of trading fee rates and trading fee rates relating to the transactions in Items 1 to 6 shall be as set forth in Appendix 1 per transaction.

- (1) Government bond futures transactions (including transactions effected by exercise of options or allocation of such exercise referred to in Item 4, but excluding transactions effected by position transfer (meaning the position transfer prescribed in Rule 33-4, Paragraph 2 of the Business Regulations; the same shall apply hereinafter))

Trading volume and the amount of delivery/payment settlement

- (2) Index futures transactions (excluding those effected by position transfer)

Trading volume

- (3) Security options transactions

Trading volume

- (4) Government bond futures options transactions

Trading volume

- (5) Index options transactions

Trading value or trading volume

- (6) Exchange FX transaction

Trading volume

4. The amount of derivatives trading system connection fees shall be the amount defined in accordance with the classification of the types of trading system components used by each Trading Participant with respect to market transactions of derivatives on the OSE markets of each Trading Participant, and such classification and amounts shall be as stipulated in Appendix 3.

5. Give-up fees shall be paid by the Clearing Execution Trading Participant (meaning the Clearing Execution Trading Participant prescribed in Rule 42, Paragraph 2 of the Business Regulations), and such amount shall be the amount obtained by multiplying the volume of sales or purchases pertaining to the give-up effected pursuant to the provision of the same paragraph by the amount enumerated in the following items in accordance with the classification of each such item.

- (1) Government bond futures transactions

The amounts specified in the following a. and b. in accordance with the classification of government bond futures contracts enumerated in a. and b.

- a. Large contract: JPY 5

- b. Mini contract: JPY 1
  - (2) Index futures transactions
    - The amounts specified in the following a. through c. in accordance with the classification of underlying indices enumerated in a. through c.
    - a. Nikkei Average and TOPIX
      - (a) Large contract: JPY 5
      - (b) Mini contract: JPY 1
    - b. RNP Index, TOPIX Banks Index, DJIA, Nifty 50, TAIEX, FTSE China 50 Index and Nikkei 225 VI: JPY 5
    - c. JPX-Nikkei Index 400, TSE Mothers Index, TOPIX Core30, TSE REIT Index, Nikkei Average Dividend Index, TOPIX Dividend Index and TOPIX Core30 Dividend Index: JPY 1
  - (3) Security options transactions: JPY 5
  - (4) Government bond futures options transactions: JPY 5
  - (5) Index options transactions: JPY 5
6. Cancellation fees, in cases where a transaction in market derivatives contracts is effected due to an erroneous order, shall be paid at the time of cancellation of the transaction in market derivatives contracts, by the Trading Participant that have placed such erroneous order, pursuant to Rule 25, Paragraph 1 of the Business Regulations, (including that the cases where Rule 10, Paragraph 1 of the Special Rules for the Business Regulations and the Brokerage Agreement Standards relating to the J-NET Market shall be applied mutatis mutandis) or Rule 15, Paragraph 1 of the Special Rules of the Business Regulations relating to an FX Transaction on the Exchange and the Brokerage Agreement Standards (hereinafter referred to as "Special Rules for the Exchange FX Transaction"), and said amount shall be the amount calculated by multiplying the basis for calculation of trading fees pertaining to the cancelled transactions (limited to the transactions effected due to an erroneous order) by the rate or amount specified in the following relevant Item in accordance with the classification of the trading enumerated in each of the following items; provided, however, that if said amount is less than JPY 100,000 the cancellation fee shall be JPY 100,000.
- (1) Government bond futures transactions
    - The amounts specified in the following a. and b. in accordance with the classification of government bond futures contracts enumerated in a. and b.
    - a. Large contract: JPY 95
    - b. Mini contract: JPY 20
  - (2) Index futures transactions

The amounts specified in the following a. through c. in accordance with the classification of underlying indices enumerated in a. through g.

- a. Nikkei Average
  - (a) Large contract: JPY 110
  - (b) Mini contract: JPY 11
- b. TOPIX
  - (a) Large contract: JPY 55
  - (b) Mini contract: JPY 7
- c. RNP Index: JPY 9
- d. TOPIX Banks Index: JPY 55
- e. JPX-Nikkei Index 400, TSE Mothers Index, TOPIX Core30 and TSE REIT Index: JPY 7
- f. DJIA, Nifty 50, TAIEX, FTSE China 50 Index, Nikkei Average Dividend Index, TOPIX Dividend Index and TOPIX Core30 Dividend Index: JPY 40
- g. Nikkei 225 VI: JPY 80

(3) Security options transactions

The amount specified in the following a. through c. in accordance with the classification of the cases enumerated in such a. through c.

- a. Cases where the quantity pertaining to the trading unit of the underlying security is less than ten (10): JPY 1
- b. Cases where the quantity pertaining to the trading unit of the underlying security is ten (10) or more but less than one hundred (100): JPY 5
- c. Cases where the quantity pertaining to the trading unit of the underlying security is one hundred (100) or more: JPY 10

(4) Government bond futures options transactions: JPY 40

(5) Index options transactions

The rate and amount specified in the following a. and b. in accordance with the classification of the index options contracts enumerated in such a. and b.

- a. Nikkei Average options transactions
  - (a) Regular contracts: 5.0/10,000
  - (b) Weekly contracts: JPY 40
- b. TOPIX options and JPX-Nikkei Index 400 options transactions: JPY 40

(6) Exchange FX transactions: JPY 20

7. Position transfer fees shall be the amount specified in accordance with the quantity of trading units pertaining to sales and purchases of government bond futures and index futures on the

OSE markets which were effected by each Trading Participant by position transfers, and such amount shall be a sum of the amounts specified in each of the following items.

- (1) Government bond futures transactions

The amount obtained by multiplying the quantity of trading units by JPY 5

- (2) Index futures transactions

The amount obtained by multiplying the quantity of trading units by JPY 5

8. The date of payment to OSE for the trading participant fees specified in Paragraph 1 shall be the 20th of each month (to be moved down in order if such date falls on a non-business day (meaning a non-business day prescribed in Rule 19, Paragraph 1 of the Business Regulations, including extraordinary non-business days prescribed in Paragraph 2 of the same rule)), and payment relating to basic fees shall be made for this month and payment relating to trading fees, give-up fees, cancellation fees, and position transfer fees shall be made for the previous month.
9. Notwithstanding the provisions of the preceding paragraph, payment relating to derivatives trading system connection fees shall be made as prescribed by OSE.

### **Rule 3. Discount of Trading Fees for Market Makers**

Notwithstanding the provisions of Paragraph 3 of the preceding rule, OSE shall discount or rebate trading fees as separately prescribed by OSE or pay an amount of incentives prescribed by OSE pursuant to Rule 9-2 of the Trading Participant Regulations for Trading Participants designated as a market maker (meaning designation of a market maker prescribed in Rule 18, Paragraph 2 of the Enforcement Rules for Business Regulations).

### **Rule 3-2. Incentives to Liquidity Providers**

OSE shall pay an amount of incentives as separately prescribed by OSE pursuant to Rule 9, Paragraph 2 of the Trading Participant Regulations to Trading Participants designated as liquidity providers (meaning designation of a liquidity provider prescribed in Rule 8-2, Paragraph 1 of the Enforcement Rules for Special Rules for Business Regulations and Brokerage Agreement Standards Relating to Exchange Foreign Exchange Margin Trading).

### **Rule 4. Change in Trading Fees, etc.**

Notwithstanding the provisions of the preceding three rules, OSE may, when it considers necessary for the invigoration of the market, change the trading fee rates enumerated in Rule 2, Paragraph 3 or rebate trading fees, or pay incentives pursuant to Rule 9, Paragraph 2 of the Trading Participant Regulations for a certain period of time as separately prescribed by OSE. In this case, notification to that effect must be given to Trading Participants.

**Rule 5. Amount of Trading Participation Fees**

1. The amount of transaction participation fees prescribed in Rule 32, Paragraph 4 of the Trading Participant Regulations shall be the amount specified in each of the following items in accordance with the classification of the obtained trading qualifications enumerated in each such item (in cases where an Authorized Transaction-at-Exchange Operator is obtaining a trading qualification, the amount obtained by multiplying the amount stipulated in said item by 1/10; the same shall apply in the following paragraph).
  - (1) When obtaining a Futures, etc. Trading Qualification (including when obtaining an FX Trading Qualification at the same time)  
JPY 50 million
  - (2) When obtaining a Government Bond Futures, etc. Trading Qualification (including when obtaining an FX Trading Qualification at the same time)  
JPY 30 million
  - (3) When obtaining an FX Trading Qualification (except the cases enumerated in the preceding two items)  
JPY 3 million
2. Notwithstanding the provisions of the preceding paragraph, in the cases enumerated in the following items, the trading participation fees pertaining to an obtained trading qualification shall be the amounts specified in each such item:
  - (1) Where a Government Bond Futures, etc. Trading Participant waives a Government Bond Futures, etc. Trading Qualification and obtains a Futures, etc. Trading Qualification at the same time:  
JPY 20 million
  - (2) Where an FX Trading Participant obtains a Futures, etc., Trading Qualification:  
JPY 47 million
  - (3) Where an FX Trading Participant obtains a Government Bond Futures, etc., Trading Qualification:  
JPY 27 million
3. Notwithstanding the provisions of Paragraph 1, trading participation fees are not required for obtainment of trading qualification in the cases enumerated in the following items:
  - (1) Where a Futures, etc. Trading Participant waives a Futures, etc. Trading Qualification and obtains a Government Bond Futures, etc. Trading Qualification at the same time;
  - (2) Where a Futures, etc. Trading Participant or a Government Bond Futures, etc. Trading Participant obtains an FX Trading Qualification; or

- (3) When obtaining an FX Trading Qualification and designated by OSE as a market maker pursuant to the provisions of Rule 21, Paragraph 1 of the Special Rules for the Exchange FX Transaction (meaning the market maker prescribed in Rule 2, Paragraph 1, Item 6 of the Special Rules for the Exchange FX Transaction) at the same time.
4. The amount of money prescribed in Rule 33-2, Paragraph 4 shall be, with regards to trading qualifications already obtained, the amount after deducting trading participation fees paid to OSE at the time of obtaining said trading qualification from the amount corresponding to the category of obtainment of trading qualification stipulated in each item of Paragraph 1.

**Rule 6. Amount of Trading Participant Security Money**

1. The amount of trading participant security money prescribed in Rule 11-2, Paragraph 1 of the Trading Participant Regulations shall be a total amount of the amount enumerated in each of the following items for each trading qualification held by the Trading Participant.
  - (1) The total amount of the basic fees and the derivatives trading system connection fees for one month (for the fiscal year containing the day on which a Trading Participant newly obtains its trading qualification, the monthly amounts of the basic fees and the derivatives trading system connection fees calculated as at the time of obtaining such trading qualification), out of the trading participant fees of such trading participant as of the end of the fiscal year of OSE.
  - (2) The amount specified in the following Sub-item a. or b. in accordance with the classification referred to in such sub-items:
    - a. For fiscal years other than those referred to in b.

The total amount equivalent to twice the average monthly amount of trading fees, give-up fees and position transfer fees pertaining to the relevant trading qualification, out of trading participant fees of the Trading Participant for the last fiscal year of OSE
    - b. For the fiscal year in which the Trading Participant newly obtained a trading qualification

The amount specified by OSE on a case-by-case basis in consideration of the past and expected trading activities of the Trading Participant. However, OSE may change the amount of trading participant security money if it deems that the amount of trading participant security money is clearly insufficient in light of the Trading Participant's actual trading activity since it obtained the trading qualification.
2. Notwithstanding the provisions of the preceding paragraph, where a trading qualification is newly obtained and, in addition, where the case falls under each of the following Items, the amount of the trading participant security money for a fiscal year containing such day of newly obtaining trading qualifications shall be the amount set forth in each of such Items:
  - (1) Where appropriation of trading participant security money prescribed in Rule 32, Paragraph 2

of the Trading Participant Regulations is made (excluding cases where a person obtains an additional trading qualification)

The amount of the trading participant security money at the time of the forfeiture of a trading qualification

- (2) Where appropriation of trading participant security money prescribed in Rule 32, Paragraph 3 of the Trading Participant Regulations is made

The amount of trading participant security money at the time of the forfeiture of trading qualifications of a Trading Participant which has forfeited trading qualifications

3. Where a Trading Participant conducts a merger with, succeeds business from or receives a business transfer, etc. from another Trading Participant due to a demerger, and such other Trading Participant waives its trading qualification, OSE may change the amount of trading participant security money, considering the actual trading activity of such other Trading Participant.
4. The amount of the trading participant security money for a new fiscal year shall be applied on and after the day set forth by OSE.

**Rule 7. Application to Brokerage for Clearing of Securities, etc.**

These Rules shall apply to the brokerage for clearing of securities, etc. by regarding a Trading Participant that entrusts the brokerage for clearing of securities, etc. as an entity that effects such transactions in the market derivatives contracts.

## Appendix 1

## Basis for Calculation of Trading Fees and Trading Fee Rates, etc.

The basis for calculation of trading fees and trading fee rates shall be as below.

Category of Trading	Category of Subject of Trading	Basis for Calculation	Trading Fee Rates, etc.
Government bond futures trading (limited to large contracts)	Standardized government bonds	Trading volume, and quantity of settlement by delivery/payment	For each sale or purchase (excluding those effected by exercise of government bond futures options and the allocation of such exercise): JPY 95 per trading unit  For each sale or purchase of government bond futures effected by exercise of government bond futures options and allocation of such exercise: JPY 82 per trading unit  Volume/amount of settlement by delivery/payment of government bond futures trading: JPY 10 per trading unit
Government bond futures trading (limited to mini contracts)	Prices of standardized government bonds	Trading volume	JPY 20 per trading unit for each sale or purchase
Index futures trading (excluding mini contracts)	Nikkei Average	Trading volume	Amount obtained by multiplying the total trading volume for customer accounts by the trading fee rates stipulated in Appendix 2  Amount obtained by multiplying the total trading volume for proprietary accounts by the trading fee rates stipulated in Appendix 2
	TOPIX	Trading volume	Amount obtained by multiplying the total trading volume by the trading fee rates stipulated in Appendix 2

	RNP Index	Trading volume	JPY 29 per trading unit for each sale or purchase
	JPX-Nikkei Index 400, TSE Mothers Index, TOPIX Core30 and TSE REIT Index	Trading volume	JPY 7 per trading unit for each sale or purchase
	TOPIX Banks Index	Trading volume	JPY 55 per trading unit for each sale or purchase
	DJIA, Nifty 50, TAIEX and FTSE China 50 Index	Trading volume	JPY 40 per trading unit for each sale or purchase
	Nikkei 225 VI	Trading volume	JPY 80 per trading unit for each sale or purchase
	Nikkei Average Dividend Index, TOPIX Dividend Index and TOPIX Core30 Dividend Index	Trading volume	Amount obtained by multiplying the total trading volume by the trading fee rates stipulated in Appendix 2
Index futures trading (limited to mini contracts)	Nikkei Average	Trading volume	Amount obtained by multiplying the total trading volume for customer accounts by the trading fee rates stipulated in Appendix 2
			Amount obtained by multiplying the total trading volume for proprietary accounts by the trading fee rates stipulated in Appendix 2
	TOPIX	Trading volume	JPY 7 per trading unit for each sale or purchase
Security options trading	Security Options	Trading volume	Cases where the quantity pertaining to the trading unit of the underlying security is less than ten (10): JPY 1 per trading unit for each sale or purchase
			Cases where the quantity pertaining to the trading unit of the underlying security is ten (10) or more but less than one hundred (100):

			JPY 5 per trading unit for each sale or purchase  Cases where the quantity pertaining to the trading unit of the underlying security is one hundred (100) or more: JPY 10 per trading unit for each sale or purchase
Government bond futures options trading	Options on government bond futures	Trading volume	JPY 40 per trading unit for each sale or purchase
Index options trading	Nikkei Average Options (regular contracts)	Trading value	Amount obtained for each sale or purchase by multiplying the trading value by the trading fee rates stipulated in Appendix 2
	Nikkei Average Options (weekly contracts)	Trading volume	JPY 40 per trading unit for each sale or purchase
	TOPIX Options and JPX-Nikkei Index 400 Options	Trading volume	JPY 40 per trading unit for each sale or purchase
Exchange FX trading	Yen financial index and non-yen financial index	Trading volume	JPY 20 per trading unit for each sale or purchase

Note 1. The meaning of the terms shall be as prescribed in the Business Regulations (including Special Rules).

Note 2. The quantity of settlement by delivery/payment shall be the total of the quantity of short positions for which repurchases were not made by the last trading day for each contract month and the quantity of long positions for which resales were not made by such last trading day.

Note 3. The total trading volume or trading value relating to market transactions of derivatives excluding Exchange FX transactions means the total amount of the trading volume or trading value from the trading day on which the first of each month finishes until the trading day on which the last day of said month finishes.

Note 4. In cases where the give-up is effected, an Order Execution Trading Participant shall pay the trading fees pertaining to the market transactions of derivatives that are the subject of such give-up.

Note 5. For Nikkei Average Options (excluding weekly contracts), in cases where the trading fee per trading unit of a sale or a purchase is less than JPY 5, the trading fee shall be JPY 5; and in cases

where it exceeds JPY 350, the trading fee shall be JPY 350.

Note 6. The trading volume in Exchange FX Transaction shall mean the trading volume between the trading day starting on the first day of the month (to be moved down in order if it falls on a holiday (meaning a holiday described in Rule 6, Paragraph 1 of the Special Rules for Exchange FX Transaction, including temporary holidays prescribed in Paragraph 2 of the same rule; the same shall apply hereinafter in this Note 6)) and the trading day starting on the last day of said month (to be moved up in order if it falls on a holiday); provided, however, that, except in cases where the OSE considers necessary, for market makers as prescribed in Rule 2, Item 6 of the same rules, it shall exclude the volume relating to transactions through market maker bid and offer and transactions executed prescribed in Rule 19-2, Paragraph 1 of the same special rules.

## Appendix 2

## Trading Fee Rates Relating to Specified Market Derivatives Trading

The trading fee rates (figures below three decimal places (for Item 4, figures below eight decimal places) shall be rounded down; the same shall apply hereinafter) relating to market derivative trading on Nikkei Average, TOPIX, and Dividend Indices (meaning Nikkei Average Dividend Index, TOPIX Dividend Index, and TOPIX Core30 Dividend Index; the same shall apply hereinafter) in Appendix 1 for each Trading Participant shall be as prescribed in each category listed below; provided, however, that OSE shall prescribe on a case-by-case basis the trading fee rates for said Trading Participant for four months after obtaining a futures, etc. trading qualification.

## (1) Index futures trading based on Nikkei Average

## a. Large contracts for customer accounts

With respect to the monthly average trading volume (See Note below) pertaining to large contracts for customer accounts of said Trading Participant, the trading fee rate shall be the value obtained by dividing the amount calculated by the following (a) through (d) by said monthly average trading volume:

- (a) JPY 110 for each contract up to 10,000 contracts
- (b) JPY 70 for each contract exceeding the first 10,000 contracts up to 50,000 contracts
- (c) JPY 40 for each contract exceeding the first 50,000 contracts up to 100,000 contracts
- (d) JPY 30 for each contract exceeding the first 100,000 contracts

(Note) The monthly average trading volume means the value (figures less than one shall be rounded down) obtained by dividing the total of trading volume (in cases where give-up is effected, it shall be regarded as trading volume of Order Execution Trading Participant; the same shall apply hereinafter) for the three months from the trading day on which the first of the month 4 months prior (to be moved down in order if it falls on a non-business day (meaning a non-business day prescribed in Rule 19, Paragraph 1 of the Business Regulations, including extraordinary non-business days prescribed in Paragraph 2 of the same rule; the same shall apply hereinafter); the same shall apply hereinafter), finishes until the trading day on which the last day of the month two months prior (to be moved up in order if it falls on a non-business day) finishes by three (3). The same shall apply hereinafter.

## b. Large contracts for proprietary accounts

With respect to the monthly average trading volume pertaining to large contracts for proprietary accounts of said Trading Participant, the trading fee rate shall be the value

obtained by dividing the amount calculated by the following (a) through (d) by said monthly average trading volume:

- (a) JPY 70 for each contract up to 10,000 contracts
- (b) JPY 35 for each contract exceeding the first 10,000 contracts up to 50,000 contracts
- (c) JPY 20 for each contract exceeding the first 50,000 contracts up to 100,000 contracts
- (d) JPY 15 for each contract exceeding the first 100,000 contracts

c. Mini contracts for customer accounts

With respect to the monthly average trading volume pertaining to mini contracts for customer accounts of said Trading Participant, the trading fee rate shall be the value obtained by dividing the amount calculated by the following (a) through (d) by said monthly average trading volume:

- (a) JPY 11 for each contract up to 100,000 units
- (b) JPY 8 for each contract exceeding the first 100,000 contracts up to 500,000 contracts
- (c) JPY 6 for each contract exceeding the first 500,000 contracts up to 1,000,000 contracts
- (d) JPY 4.5 for each contract exceeding the first 1,000,000 contracts

d. Mini contracts for proprietary accounts

With respect to the monthly average trading volume pertaining to Mini contracts for proprietary accounts of said Trading Participant, the trading fee rate shall be the value obtained by dividing the amount calculated by the following (a) through (d) by said monthly average trading volume:

- (a) JPY 7 for each contract up to 100,000 contracts
- (b) JPY 6 for each contract exceeding the first 100,000 contracts up to 500,000 contracts
- (c) JPY 4 for each contract exceeding the first 500,000 contracts up to 1,000,000 contracts
- (d) JPY 3.5 for each contract exceeding the first 1,000,000 contracts

(2) Index futures trading based on TOPIX

With respect to the monthly average trading volume of said Trading Participant pertaining to large contracts, the trading fee rate shall be the value obtained by dividing the amount calculated by the following a. through c. by said monthly average trading volume:

- a. JPY 55 for each contract up to 100,000 contracts
- b. JPY 35 for each contract exceeding the first 100,000 contracts up to 300,000 contracts
- c. JPY 30 for each contract exceeding the first 300,000 contracts

(3) Index futures trading based on Dividend Indices

With respect to the monthly average trading volume of said Trading Participant pertaining to each Dividend Index, the trading fee rate shall be the value obtained by dividing the amount calculated by the following a. and b. by said monthly average trading volume:

- a. JPY 40 for each contract up to 5,000 contracts
- b. JPY 20 for each contract exceeding the first 5,000 contracts

(4) Index options trading based on Nikkei Average (excluding weekly contracts; the same shall apply hereinafter)

With respect to the monthly average trading value (See Note below) pertaining to index options trading based on Nikkei Average of said Trading Participant, the trading fee rate shall be the value obtained by dividing the amount calculated by the following a. through d. by said monthly average trading value:

- a. 5/10,000 for each amount up to JPY 10 billion
- b. 3.5/10,000 for each amount exceeding the first JPY 10 billion up to JPY 25 billion
- c. 2.5/10,000 for each amount exceeding the first JPY 25 billion up to JPY 35 billion
- d. 1.5/10,000 for each amount exceeding the first JPY 35 billion

(Note) The monthly average trading value means the value (figures less than one shall be rounded down) obtained by dividing the total of trading value (in cases where give-up is effected, it shall be regarded as trading value of Order Execution Trading Participant; the same shall apply hereinafter) for the three months from the trading day on which the first of the month 4 months prior (to be moved down if it falls on a non-business day finishes until the trading day on which the last day of the month two months prior (to be moved up in order if it falls on a non-business day) finishes by three (3). The same shall apply hereinafter.

### Appendix 3

#### Amount of Derivatives Trading System Connection Fees

1. The amount of derivatives trading system connection fees (monthly) prescribed in Rule 2, Paragraph 4 shall be the sum of the amount specified in each of the following items and the meanings of the terms shall be stipulated in the Connectivity Manual.
  - (1) Sub-Participant Code usage fees  
The usage fees shall be JPY 0 for up to three (3) codes and JPY 5,000 for each additional code.
  - (2) User ID usage fees  
The User ID usage fees shall be the total amount specified in a. and b. below in accordance with the types of TAPs enumerated in said a. and b.
    - a. Shared TAP  
The fees for the Shared TAP shall be the total amount specified in (a) to (e) below in accordance with the types of User ID enumerated in said (a) to (e).
      - (a) Terminal User ID  
The fees shall be JPY 0 for up to two (2) IDs and JPY 18,000 for each additional ID.
      - (b) Trading User ID and Admin Trading User ID  
The fees shall be JPY 0 for up to two (2) IDs and JPY 10,000 for each additional ID.
      - (c) High Frequent Trading User ID  
JPY 28,000 per ID
      - (d) MM User ID and MM Management User ID  
JPY 30,000 per ID
      - (e) TradeGuard User ID  
The fees shall be JPY 0 for up to four (4) IDs and JPY 50,000 for each additional ID.
    - b. Dedicated TAP  
The fees for the Dedicated TAP shall be the total amount specified in (a) and (b) below.
      - (a) Dedicated TAP usage fee  
JPY100,000 per unit.
      - (b) Additional User ID registration fee  
Regardless of the types of User ID, the fees for one Dedicated TAP shall be JPY 0 for up to five (5) IDs and JPY 10,000 for each additional ID.
2. The number of trading system components (meaning Sub-Participant Codes, User IDs and Dedicated TAPs) to be used to calculate the amount specified in each of the items in the preceding paragraph shall be the number as of the first business day of the month; provided, however, that where a trading

qualification is newly obtained, the number shall be as of the day of obtaining the trading qualification for the month to which said day of obtaining the trading qualification belongs.

3. The derivatives trading system connection fees for the month to which the day of obtaining or forfeiting the trading qualification of a trading participant belongs shall be calculated pro rata on a daily basis.
4. With respect to User ID (excluding the User ID pertaining to Dedicated TAP; the same shall apply hereinafter.) and Dedicated TAP, the minimum usage period shall be six (6) months; and, in case the trading participants stop using the User ID or Dedicated TAP within the minimum usage period after starting to use them, the amount obtained by subtracting the paid User ID usage fee pertaining to such User ID or such Dedicated TAP from an amount equivalent to the User ID usage fee for the minimum usage period pertaining to such User ID or such Dedicated TAP shall be added to the derivative trading system connection fee.
5. In cases where OSE deems it necessary to promote the effective utilization of the derivatives trading system by trading participants, OSE may offer separate discounts for the fees stipulated in Paragraph1, Item 2.

## **Rules Concerning Order Management Systems at Trading Participants**

(As of April 1, 2018)

Osaka Exchange, Inc.

### **Rule 1. Purpose**

1. These Rules prescribe necessary matters relating to order management systems to be established by Trading Participants pursuant to Rule 21-2 of the Trading Participant Regulations.
2. The purpose of establishing order management systems referred to in the preceding paragraph is for Trading Participants to formulate internal rules and take other necessary measures so as to prevent Trading Participants from accepting or placing erroneous orders with regard to market transactions of derivatives (limited to transactions in trading sessions specified by Osaka Exchange, Inc. (hereinafter referred to as "OSE")) on the OSE markets, thereby securing confidence in OSE and Trading Participants and contributing to the public interest and investor protection.

### **Rule 2. Formulation of Internal Rules**

A Trading Participant shall establish internal rules concerning order management that stipulate the matters enumerated in the following items:

- (1) Matters concerning confirmation of customer order details;
- (2) Matters concerning restriction on order placement;
- (3) Matters concerning appointment of approvers;
- (4) Matters concerning sufficient dissemination of internal rules; and
- (5) Other matters deemed necessary.

### **Rule 3. Confirmation of Customer Order Details**

1. A Trading Participant shall confirm the following matters when accepting orders from a customer:
  - (1) Issue (or contract month in the case of government bond futures transactions and index futures transactions), distinction of purchase or sale, price, quantity and other customer order details.
  - (2) The customer's resources, attributes, products the customer trades in and other information concerning the customer.
2. A Trading Participant shall make efforts to gain an understanding of customers' resources in advance.

**Rule 4. Restriction on Order Placement**

A Trading Participant shall impose restrictions referred to in the following items when placing orders on the OSE markets, based on the matters referred to in each item of Paragraph 1 of the preceding rule and the Trading Participant's financial strength.

- (1) Restriction to prohibit placement of orders of a certain quantity/amount or more;
- (2) Restriction to require approval for placement of orders of a certain quantity/amount or more;  
and
- (3) Restriction that is deemed appropriate to prevent the placement of orders, etc. if the cumulative volume/value of such orders placed over a certain period of time exceeds the prescribed volume/value.

**Rule 5. Appointment of Approvers**

A Trading Participant shall appoint persons who give approval referred to in Item 2 of the preceding rule at each office from which orders are placed on the OSE markets; provided, however, that this shall not apply where orders are placed through any other office and approval is given at such other office.

**Rule 6. Restrictions through Systems**

A Trading Participant shall implement the restrictions referred to in each item of Rule 4 by using the systems or methods prescribed in the following items:

- (1) Restrictions referred to in Rule 4, Item 1  
Systems pertaining to restrictions on order placement provided by OSE to a Trading Participant
- (2) Restrictions referred to in Rule 4, Item 2  
Systems pertaining to order placement used by a Trading Participant
- (3) Restrictions referred to in Rule 4, Item 3  
Systems prescribed in Item 1 or the preceding item, or methods that are deemed appropriate.

**Rule 7. Dissemination of Internal Regulations**

A Trading Participant shall ensure effectiveness of the internal rules referred to in Rule 2 by keeping officers and employees fully informed, conducting periodic internal inspection concerning the status of compliance, and taking any other necessary measures.

**COMMODITY FUTURES TRADING COMMISSION**  
**SUPPLEMENT S-1 to FORM FBOT**  
**CLEARING ORGANIZATION SUPPLEMENT TO**  
**FOREIGN BOARD OF TRADE APPLICATION FOR REGISTRATION**

Japan Securities Clearing Corporation  
Name of clearing organization as specified in organizational documents

2-1, Nihombashi-Kabuto-cho, Chuo-ku, Tokyo 103-0026, JAPAN

Address of principal executive office

Osaka Exchange, Inc.

Name of the foreign board of trade on associated Form FBOT

- If this Supplement S-1 is accompanying a new application for registration, please complete in full and check here.
- If this Supplement S-1 is an amendment to a pending application for registration, or to a final application that resulted in the issuance of an Order of Registration, please list all items that are amended or otherwise updated and check here.

(\*) Following exhibits to this Supplement S-1 including the documents attached thereto are revised due to the rule changes in connection with the replacement of the clearing systems for listed derivatives, and made other updates:

- Exhibit A-1;
- Exhibit C;
- Exhibit D-1;
- Exhibit F-1; and
- Exhibit F-2;

**REGISTERED DERIVATIVES CLEARING ORGANIZATIONS**

If the clearing organization is registered with the Commission in good standing as a derivatives clearing organization (DCO), please indicate by checking here:

- CFTC-registered DCO.  
If the clearing organization is registered with the Commission in good standing as a DCO, the clearing organization need not complete the remainder of the Supplement S-1.

**GENERAL INFORMATION**

1. Name under which the business of the clearing organization will be conducted, if different than name specified above:

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2. List of principal office(s) where clearing organization activities are/will be conducted (please use multiple entries, when applicable):

Office (name and/or location):	Head Office
Address:	2-1, Nihombashi-Kabuto-cho, Chuo-ku, Tokyo, 103-0026, Japan
Phone Number:	+81-3- 3655-1234
Fax Number:	
Website Address:	<a href="https://www.jpx.co.jp/jsc/">https://www.jpx.co.jp/jsc/</a>

3. Contact Information.

3a. Primary Contact for Supplement S-1 (i.e., the person authorized to receive Commission correspondence in connection with this Supplement S-1 and to whom questions regarding the submission should be directed):

Name:	Mr. Tetsuo Otashiro
Title:	Head, Strategic Planning Division
Email Address:	<a href="mailto:jsc-intl@jpx.co.jp">jsc-intl@jpx.co.jp</a>
Mailing Address:	2-1, Nihombashi-Kabuto-cho, Chuo-ku Tokyo, 103-0026, Japan
Phone Number:	+81-50-3361-0928
Fax Number:	

3b. If different than above, primary contact at the clearing organization that is authorized to receive all forms of Commission correspondence:

Name:	
Title:	
Email Address:	
Mailing Address:	
Phone Number:	
Fax Number:	

## **BUSINESS ORGANIZATION**

Japan Securities Clearing Corporation (“JSCC”) is a joint-stock corporation, having its principal office registered in Tokyo, Japan.

JSCC was established on July 1, 2002 and started its business on January 14, 2003 as Securities Clearing Organization (currently “Financial Instruments Clearing Organization”) under Japan’s Securities and Exchange Law (Law No. 25 of 1948, as amended) (currently “Financial Instruments and Exchange Act”).

Since July 16, 2013, in connection with the restructuring of functions under Japan Exchange Group, JSCC has cleared all transactions executed on the Financial Instruments Exchange Market operated by Osaka Exchange, Inc.

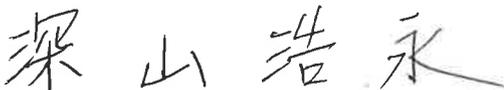
On October 26<sup>th</sup>, 2015, CFTC issued an order of exemption from registration as a derivatives clearing organization to JSCC for the clearing of Interest Rate Swaps under the terms and conditions designated in the order. Consecutively, CFTC issued an amended order of exemption from registration to expand the scope of cleared products to any swaps under CFTC jurisdiction in May 15, 2017.

## **SIGNATURES**

By signing and submitting this Supplement S-1, the clearing organization agrees to and consents that the notice of any proceeding before the Commission in connection with the associated foreign board of trade's application for registration or registration with the Commission may be given by sending such notice by certified mail or similar secured correspondence to the persons specified in sections 3a and 3b above.

Japan Securities Clearing Corporation has duly caused this Supplement S-1 to be signed on its behalf by the undersigned, hereunto duly authorized, this 3rd of July, 2018.

Japan Securities Clearing Corporation and the undersigned represent that all information and representations contained in this Supplement S-1 (and exhibits) are true, current, and complete. It is understood that all information, documentation, and exhibits are considered integral parts of this Supplement S-1. The submission of any amendment to a Supplement S-1 represents that all items and exhibits not so amended remain true, current, and complete as previously filed.



Hironaga MIYAMA

**Signature of Chief Executive Officer (or functional equivalent), on behalf of the Clearing Organization**

President & CEO

**Title**

Japan Securities Clearing Corporation

**Name of Clearing Organization**

# **Principles for Financial Market Infrastructures Disclosure**

**March 31, 2018**

**Japan Securities Clearing Corporation**



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Responding institution: Japan Securities Clearing Corporation

Jurisdiction in which the FMI operates: Japan

Authorities regulating, supervising, or overseeing the FMI: Japan Financial Services Agency (Regulation and Supervision), Bank of Japan (Oversight)

Date of Disclosure: April 2, 2018

This document is also available at <https://www.jpx.co.jp/jsccl/en/>.

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Japan Securities Clearing Corporation has taken every effort to ensure the accuracy of the information contained in this document. JSCC shall accept no responsibility or liability for any actions involving the use of this information. JSCC reserves the right to, without notice, revise or alter the contents of this document, or withdraw or halt its publication. Additionally, unless otherwise noted, information contained within this document is current as of the end of March 2018. Updates may be made following its initial publication. This document is also available on the JSCC website and is subject to the website's Usage Policy.

This is a reference translation of the original Japanese document. The original Japanese text shall be definitive when construing or interpreting this document.

## I. Executive Summary

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Japan Securities Clearing Corporation (“JSCC”) is the primary clearing house in Japan, providing clearing services (“Clearing Businesses”) for cash products on Tokyo Stock Exchange, Inc. (“TSE”) and other exchanges/PTS in Japan (“Cash Products”), Listed Derivatives on Osaka Exchange, Inc. (“OSE”), credit default swaps (“CDS”), interest rate swaps (“IRS”), and OTC Japanese Government Bond (“JGB”) transactions.

JSCC is licensed under the Financial Instruments and Exchange Act (“FIEA”)<sup>1</sup> and directly regulated by the Japanese Financial Services Agency (“JFSA”). In December 2013, the JFSA released Comprehensive Guidelines for Supervision of FMIs, which incorporates the Principles for Financial Market Infrastructures (“PFMI”), which is published by the Committee on Payment and Settlement Systems-Board of the International Organization of Securities Commissions (“CPSS-IOSCO” or “CPMI-IOSCO”)<sup>2</sup>, into Japanese regulations. JSCC is also subject to oversight<sup>3</sup> by the Bank of Japan (“BOJ”) of financial market infrastructures, as provided in the Bank of Japan Act<sup>4</sup>. JSCC is fully compliant with the PFMI and the JFSA’s Guidelines<sup>5</sup>. This disclosure provides details in accordance with the “Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology,” to demonstrate its compliance. Unless otherwise specified, this disclosure is current as of the end of March 2018.

Furthermore, JSCC has published quantitative information according to PFMI pursuant to the “Public quantitative disclosure standards for central counterparties” published by CPMI-IOSCO in February 2015<sup>6</sup>.

JSCC understands the necessity of a robust and comprehensive system for risk management to fulfill its responsibility to stably provide its clearing services. To handle the credit, liquidity, custody, operational, and other risks to which it is exposed, JSCC has established a robust risk management framework incorporated into its organization, including the Board of Directors and Risk Oversight Committee.

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<sup>1</sup> FIEA Article 156-2

<sup>2</sup> Name at the time the PFMI’s release. On September 1, 2014, the Committee on Payment and Settlement Systems (CPSS) changed its name to the Committee on Payments and Market Infrastructures (“CPMI”).

<sup>3</sup> In March 2013, the BOJ formulated the “The Bank of Japan Policy on Oversight of Financial Market Infrastructures,” clarifying the adoption of the PFMI as criteria to be used for evaluating the safety and efficiency of systemically important financial market infrastructures.

<sup>4</sup> Bank of Japan Act Article 1

<sup>5</sup> In the “Implementation monitoring of the PFMI: Level 2 assessment report for central counterparties and trade repositories – Japan” publicized by CPMI-IOSCO on February 26, 2015(the link below), Japan is rated as having completely and consistently adopted the PFMI applicable for CCPs and TRs.

Link to the report : <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD476.pdf>

<sup>6</sup> JSCC’s quantitative disclosures can be found at the following link: <https://www.jpx.co.jp/jsc/en/company/fmi-pdf2.html>

## II. Summary of Changes since the Previous Update

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This document is JSCC's disclosure pursuant to the "Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology" released by CPSS-IOSCO in December 2012. As Principles 11 (Central Securities Depositories) and 24 (Disclosure of Market Data by Trade Repositories) do not apply to JSCC's business, these principles are not covered in this disclosure.

JSCC published its first disclosure on March 31, 2015, then updated it on March 31, 2016 and March 31, 2017. Major changes in this update from the last disclosure are as follows:

- As of April 1, 2017, JSCC opened its Osaka Office to further strengthen its BCP framework. See Principle 2 (Governance) and IV-2 Organization Chart for further details.
- As of May 15, 2017, JSCC was granted an amended order of exemption from registration as a DCO under the U.S. Commodity and Exchange Act, expanding the scope of cleared products to be covered under the exemption to all swap transactions. See "Legal and regulatory framework" under "III. General Background of the FMI" and Principle 1 (Legal Basis) for further details.
- As of June 2017, JSCC started distributing a Risk Profile report for all of its Clearing Businesses to enhance the level of disclosure to Participants. See Principle 3 (Framework for the Comprehensive Management of Risks), Principle 4 (Credit Risk) and Principle 23 (Disclosure of Rules, Key Procedures, and Market Data) for further details.
- As of June 5, 2017, JSCC introduced, for CDS, the Position Transfer Framework between a Clearing Participant and their customer in the same Corporate Group<sup>7</sup>. See Principle 14 (Segregation and portability) for further details.
- As of June 21, 2017, JSCC reinforced its risk governance framework, by implementing changes such as the introduction of a Risk Appetite Framework and the establishment of a Risk Committee. See "General organization of the FMI" under "III. General Background of the FMI," Principle 2 (Governance), Principle 3 (Framework for the Comprehensive Management of Risks), Principle 18 (Access and Participation Requirements), Principle 19 (Tiered Participation Arrangements), Principle 21 (Efficiency and Effectiveness) and Principle 23 (Disclosure of Rules, Key Procedures, and Market Data) for further details.
- As of June 30, 2017, JSCC changed the methodology for setting and validating collateral haircuts. See Principle 5 (Collateral) for further details.
- As of August 28, 2017, JSCC added 5 issues of Single Name CDS to the eligible transactions for clearing. See "Overview of JSCC's Background and Clearing Business" under "III. General Background of the FMI" for further details.
- As of October 16, 2017, JSCC's Vendor-Initiated Compression service started to cover basis swaps. See "General organization of the FMI" under "III. General Background of the FMI" for further detail.

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<sup>7</sup> Includes the parent (*oya-gaisha*) and subsidiaries (*ko-gaisha*), and subsidiaries of the parent, but does not include associates (*kanren-gaisha*); the same applies hereinafter.

- As of October 16, 2017, JSCC accommodated, for IRS, the Netting Synchronization that automatically links post-clearing results to MarkitWire. See “Corporate Information” under “III. General Background of the FMI” for further detail.
- As of February 13, 2018, JSCC implemented an initiative to enhance the clearing and settlement framework for Listed Derivatives, including the revision of account design, the introduction of the Close-out Quantity reporting requirements, the revision of margin framework (such as introducing intraday margin), the revision of the collateral management framework (such as expanding the scope of eligible collateral) and the tiered client reporting framework. See “III. 4. JSCC System Overview” under “III. General Background of the FMI,” Principle 4 (Credit Risk), Principle 5 (Collateral), Principle 6 (Margin), Principle 14 (Segregation and Portability), Principle 16 (Custody and Investment Risks), Principle 19 (Tiered Participation Arrangements) and Principle 20 (FMI Links) for further details.
- As of February 13, 2018, JSCC reinforced its default management framework, including allowing the temporary use of cash clearing fund deposits to facilitate settlement, and the refinement of rules for the liquidation of a defaulter’s positions for Cash Products and Listed Derivatives, and the establishment of a margin framework for the maintenance of pre-funded financial resources for Listed Derivatives. See Principle 4 (Credit risk), Principle 6 (Margin), Principle 7 (Liquidity Risk) and Principle 13 (Participant-Default Rules and Procedures) for further details.
- As of January 26, 2018, JSCC was authorized as a Foreign Central Counterparty under the Financial Market Infrastructure Act from the Financial Market Supervisory Authority of Switzerland. See “Legal and regulatory framework” under “III. General Background of the FMI” and Principle 1 (Legal basis) for further details.

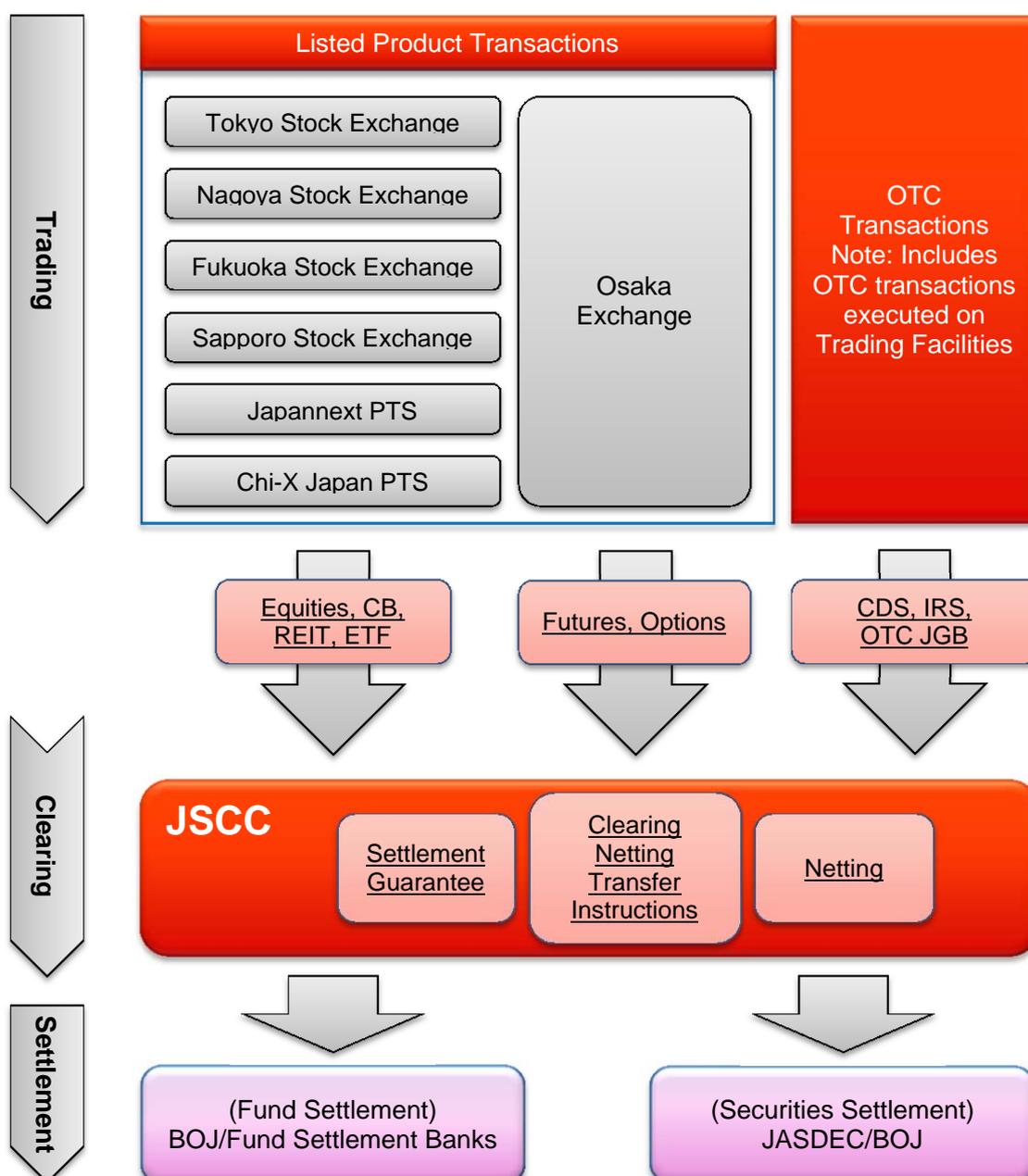
In addition to the above changes, this document contains some additions and revisions to the previous document in association with the minor revisions to the frameworks in each Clearing Business. Also, this document contains some minor additions and revisions to the previous document made for the sake of clarification.

### III. General Background of the FMI

#### Overview of JSCC's Background and Clearing Business

JSCC is a majority-owned subsidiary of Japan Exchange Group, Inc. (“JPX”). JPX’s other subsidiaries include TSE, OSE, and Japan Exchange Regulation. JSCC was established on July 1, 2002 and licensed as a central counterparty (“CCP”) on January 7, 2003, making it the first licensed clearing organization in Japan.

General Background of the FMI III-1: Role of JSCC in the Financial Market



JSCC provides the core of clearing and settlement services for the Japanese market,

clearing all cash product transactions executed on all Japanese securities exchanges and PTS including TSE, Listed Derivatives transactions executed on OSE, as well as credit default swaps, interest rate swaps, and OTC JGB transactions.

General Background of the FMI III-2: Cleared Products

Category		Details
Cash Products and Derivatives Listed	Cash Products	All trades executed on domestic stock exchanges and two proprietary trading systems
	Index Futures	Nikkei 225 Futures Nikkei 225 mini TOPIX Futures mini-TOPIX Futures JPX-Nikkei Index400 Futures TSE Mothers Index Futures TOPIX Core30 Futures RN Prime Index Futures TOPIX Banks Index Futures DJIA Futures India Nifty50 Futures TAIEX Futures FTSE China 50 Index Futures Nikkei 225 Dividend Index Futures TOPIX Dividend Index Futures TOPIX Core30 Dividend Index Futures Nikkei 225 VI Futures TSE REIT Index Futures
	Index Options	Nikkei 225 Options TOPIX Options JPX-Nikkei Index 400 Option
	Individual Securities Options	Individual Securities Options
	Bond Futures and Options	5-year JGB Futures 10-year JGB Futures Options on 10-year JGB Futures mini 10-year JGB Futures 20-year JGB Futures
Credit Default Swaps <sup>8</sup>		Series of Markit iTraxx Japan index Single Name CDS (40 issues)
Interest Rate Swaps <sup>9</sup>		JPY LIBOR (1M, 3M and 6M) JPY TIBOR (1M, 3M and 6M) Overnight Index Swap USD LIBOR (1M, 3M and 6M) EUR EURIBOR (3M and 6M) AUD BBR (3M and 6M)

<sup>8</sup> See "<https://www.jpx.co.jp/jsc/en/cash/cds/product.html>" for details of CDS eligible for clearing.

<sup>9</sup> See "<https://www.jpx.co.jp/jsc/en/cash/irs/product.html>" for details of IRS eligible for clearing.

OTC JGB Transaction	Outright JGB Cash-secured Bond Lending Transaction Repo Transaction
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## General Background of the FMI III-3: Clearing Statistics<sup>10</sup>

Listed Products <sup>11</sup>	
Cash Products Index Futures Options Bond Futures	<a href="https://www.jpx.co.jp/jscc/en/listed_products.html">https://www.jpx.co.jp/jscc/en/listed_products.html</a>
OTC Derivatives	
Credit Default Swaps	<a href="https://www.jpx.co.jp/jscc/en/credit_default_swap.html">https://www.jpx.co.jp/jscc/en/credit_default_swap.html</a>
Interest Rate Swaps	<a href="https://www.jpx.co.jp/jscc/en/interest_rate_swap.html">https://www.jpx.co.jp/jscc/en/interest_rate_swap.html</a>
OTC JGB	
OTC JGB	<a href="https://www.jpx.co.jp/jscc/en/jgbcc.html">https://www.jpx.co.jp/jscc/en/jgbcc.html</a>

### General organization of the FMI

As a vital financial market infrastructure (“FMI”) in Japan, JSCC employs a governance structure which ensures fairness and robust risk management. At the highest level, JSCC’s Board of Directors is composed of three full-time directors and six part-time directors. The board is responsible for approving high-level policies and budgets, and assessing the appropriateness of directors’ execution of their duties. It is required to comply with relevant laws and regulations, and is subject to review by statutory auditors and at the annual general shareholders meeting. JSCC published its Governance Guidelines, containing, among other things, the roles and responsibilities of the Board of Directors<sup>12</sup>.

JSCC executes business plans based on resolutions of the Board of Directors, realizing JSCC’s corporate philosophy, and overseeing day-to-day operations. The advisory committees of each product area, which are composed of Clearing Participants of the relevant product area and other entities, also function to incorporate the opinions of Clearing Participants into JSCC’s governance. For matters involving actions against Clearing Participants, JSCC consults with the Disciplinary Measures Assessment Committee, which is composed of members that are independent from JSCC. The Disciplinary Measures Assessment Committee Rules contain the provisions to the effect that a committee member with a special interest in the deliberation at the Disciplinary Measures Assessment Committee may not participate in that deliberation. See Principle 2 (Governance) for further details.

According to the internal provisions of JSCC’s Risk Management Policy, which is applied to all of its Clearing Businesses, and the Business Rules of each Clearing Business, JSCC has established a framework for managing the specific risks of each business, including eligibility criteria for Clearing Participants and a robust collateral system for initial margin and the Clearing Fund.

From the perspective of managing the credit risk of Clearing Participants, JSCC defines and

<sup>10</sup> In addition to Clearing Statistics, JSCC discloses quantitative information on its website (<https://www.jpx.co.jp/jscc/en/company/fmi-pdf2.html>) according to the “Public quantitative disclosure standards for central counterparties” published by CPMI-IOSCO.

<sup>11</sup> Clearing Business for Cash Products and Listed Derivatives.

<sup>12</sup> Available at:” [https://www.jpx.co.jp/jscc/en/risk/cimhll00000005q9-att/GG\\_E.pdf](https://www.jpx.co.jp/jscc/en/risk/cimhll00000005q9-att/GG_E.pdf)”

publicizes clearing qualifications separately for each of its Clearing Businesses, with the criteria for each aligned with the nature of that business. Criteria for participation are reasonable, clear, and publicly available, focusing primarily on the entity's management structure, financial conditions, and business capability. These are established based on the assumption that Clearing Participants are registered with the JFSA. JSCC continually monitors each Clearing Participant's management structure, financial condition, and business execution capability. If JSCC recognizes a problematic situation, it has the discretion to suspend clearing services in whole or in part for that Clearing Participant, or revoke its clearing qualification, as necessary. See Principle 18 (Access and Participation Requirements) for further details.

As of the end of March 2018, there were a total of 115 Listed Product Clearing Participants (Clearing Business for Cash Products and Listed Derivatives), 10 CDS Clearing Participants, 23 IRS Clearing Participants, and 38 OTC JGB Clearing Participants.

JSCC secures pre-funded financial resources to be available for a Clearing Participant's default, based on the predefined risk appetite<sup>13</sup> for each Clearing Business. For this purpose, initial margin<sup>14</sup> requirements are calculated using an appropriate look-back and holding period in light of the product features of each Clearing Business, while Clearing Fund contributions are calculated to cover the expected loss, using stress scenarios for each Clearing Business.

JSCC marks open positions to market at least once a day, for all products, and more frequently for some products, and requires Clearing Participants to deposit Margin by a specific time intraday. JSCC makes intra-day margin calls daily in the IRS Clearing Business and the Listed Derivatives Clearing Business. Moreover, for IRS and Listed Derivatives, a framework is also in place under which JSCC may issue additional margin calls in case of a large price fluctuation. For Cash Products Clearing Business, OTC JGB Clearing Service and CDS Clearing Service, when the market moves beyond predetermined thresholds, each Clearing Participant is required to deposit Margin intraday. For each Clearing Business, JSCC is able to make ad-hoc margin calls if it deems necessary. See Principle 6 (Margin) for further details.

For CDS and IRS clearing, JSCC has introduced a Compression framework, in an effort to reduce and compress positions by simultaneously unwinding multiple cleared trades. For IRS, JSCC offers a Compression service that allows for the simultaneous participation of multiple Clearing Participants (Vendor-Initiated Compression) and Compression services that can be performed upon the request of individual Clearing Participants (Per Trade Compression, Blended Rates Compression, Member Initiated Compression). In addition, JSCC accommodates Netting Synchronization, which is the automatic link of post-Compression trade information to MarkitWire, for IRS.

In the event of a participant default, JSCC would suspend the delivery of settlement funds and securities between the defaulting participant and JSCC. Thereafter, JSCC will liquidate positions and compensate losses as prescribed in the Business Rules of each Clearing Business. For any type of transaction, Clearing Participants are assured of a safe market as JSCC will guarantee settlements for non-defaulting Clearing participants. In addition, JSCC has secured liquidity supply from Fund Settlement Banks and its parent company, JPX, ("Liquidity Supply Facility") to secure short-term liquidity for use in the event of a Clearing Participant's default. See Principle 7 (Liquidity Risk) and Principle 13 (Participant-Default Rules and Procedures) for further details.

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<sup>13</sup> Risk Appetite Statement is available at: "[https://www.jpjx.co.jp/jscjcc/en/risk/i1h00a0000001bhh-att/RAS\\_E.pdf](https://www.jpjx.co.jp/jscjcc/en/risk/i1h00a0000001bhh-att/RAS_E.pdf)"

<sup>14</sup> Under the Business Rules for Listed Products Clearing Business, initial margin for Listed Derivatives is referred to as "Margin."

## Legal and regulatory framework

JSCC holds a license for “financial instruments obligation assumption service” (i.e. financial instruments clearing) to conduct clearing business as a CCP, and JSCC’s business is governed by the FIEA and other Japanese laws. JSCC has established Business Rules for each of its Clearing Businesses, which are subject to approval by the Prime Minister of Japan. JSCC is obligated by the FIEA<sup>15</sup> to conduct its business and operations according to its Business Rules, thus making these rules legally binding and enforceable. JSCC is subject to the direct regulation and supervision by the JFSA, and oversight in accordance with objectives prescribed in the Bank of Japan Act from the BOJ.

Some of JSCC’s Clearing Participants are domiciled in European Union (hereinafter referred to as “EU”) countries, with their operations registered in Japan, under the FIEA. Because of this, JSCC has obtained recognition as a Third Country CCP under European Market Infrastructure Regulation from the EU’s European Securities and Markets Authority to provide services to Clearing Participants and trading venues established in EU countries<sup>16</sup>.

In Australia, JSCC has received designation as a Prescribed Facility under Corporations Amendment (Central Clearing and Single-Sided Reporting) Regulation 2015 (Select Legislative Instrument No.157, 2015)<sup>17,18</sup>.

Some Affiliates (referring to a person in the same Corporate Group as the Clearing Participant; the same applies hereinafter) of Clearing Participants that clear CDS or IRS in JSCC are categorized as U.S. Persons, under the guidelines of the U.S. Commodity Futures Trading Commission (“CFTC”)<sup>19</sup>. To allow these trading entities to access JSCC’s Clearing Service for a swap, JSCC has obtained an order of exemption from registration as a Derivatives Clearing Organization under the Commodity Exchange Act from the CFTC<sup>20</sup>.

Some of the Clearing Participants that clear IRS in JSCC are incorporated in Hong Kong. Therefore, JSCC has obtained authorization from the Hong Kong Securities and Futures Commission (“SFC”), to provide Automated Trading Services, and the designation as a central counterparty, that can be used for the observance of mandatory clearing obligations, under the Securities and Futures Ordinance (“SFO”)<sup>21</sup>.

Some of the Clearing Participants that clear IRS in JSCC are incorporated in Switzerland.

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<sup>15</sup> FIEA Article 156-7

<sup>16</sup> See JSCC’s press release on “[https://www.jpjx.co.jp/jscj/en/information/press\\_releases/n5ks8e000000055k-att/JSCC-press-release\\_TC-CCP\\_en1.pdf](https://www.jpjx.co.jp/jscj/en/information/press_releases/n5ks8e000000055k-att/JSCC-press-release_TC-CCP_en1.pdf)” for details

<sup>17</sup> Currently, Corporations Regulations 2001(Statutory Rules No. 193, 2001).

<sup>18</sup> See JSCC’s press release on “[https://www.jpjx.co.jp/jscj/en/information/press\\_releases/n5ks8e000000054c-att/JSCC-press-release\\_Prescribed-CCP\\_en1.pdf](https://www.jpjx.co.jp/jscj/en/information/press_releases/n5ks8e000000054c-att/JSCC-press-release_Prescribed-CCP_en1.pdf)” for details

<sup>19</sup> U.S. Person defined in the “Interpretive Guidance and Policy Statement regarding Compliance with Certain Swap Regulations (78 Fed.Reg.45292 (July 26,2013)) IV.A.4.” published by CFTC. See CFTC guidelines on “<https://www.cftc.gov/idc/groups/public/@Irfederalregister/documents/file/2013-17958a.pdf>” for details.

<sup>20</sup> See JSCC’s press releases on “[https://www.jpjx.co.jp/jscj/en/information/press\\_releases/n5ks8e000000053q-att/JSCC-press-release\\_CFTC-Exemption\\_en1.pdf](https://www.jpjx.co.jp/jscj/en/information/press_releases/n5ks8e000000053q-att/JSCC-press-release_CFTC-Exemption_en1.pdf)” and “[https://www.jpjx.co.jp/jscj/en/information/press\\_releases/i1h00a0000000yef-att/JSCC-press-release\\_CFTC-Amended\\_Exemption\\_en1.pdf](https://www.jpjx.co.jp/jscj/en/information/press_releases/i1h00a0000000yef-att/JSCC-press-release_CFTC-Amended_Exemption_en1.pdf)” for details.

<sup>21</sup> See JSCC’s press release on “[https://www.jpjx.co.jp/jscj/en/information/press\\_releases/n5ks8e000000051w-att/JSCC\\_HK\\_ATSCCP\\_e.pdf](https://www.jpjx.co.jp/jscj/en/information/press_releases/n5ks8e000000051w-att/JSCC_HK_ATSCCP_e.pdf)” for details.

Therefore, JSCC has been recognized as Foreign Central Counterparty under the Financial Market Infrastructure Act from the Financial Market Supervisory Authority of Switzerland to offer IRS Clearing Services to those trading entities<sup>22</sup>.

Consequently, each trading entity may satisfy their obligations in relation to the central clearing requirements of OTC derivative transactions that are currently in effect, or expected to be in effect in the future, in the EU, Australia, the U.S., Hong Kong and Switzerland, by clearing its trades in JSCC.

### System and operations

For cash product transactions, JSCC serves as the CCP for all domestic Japanese financial instruments exchanges and two Proprietary Trading Systems (“PTS”). It fulfills this role through clearing eligible products at the time the transactions are executed in the market, whereby JSCC interposes itself between the parties, assuming the buyer’s obligation for payment and the seller’s obligation for delivery.

Settlement of equities and bonds between JSCC and Clearing Participants is conducted on a trade date plus three days basis (“T+3”<sup>23</sup>) via a Delivery Versus Payment (“DVP”) system.

Transactions of Listed Derivatives are cleared at the time they are executed in the market.

CDS are cleared once per week on a three-day cycle. Beginning on Tuesday of each week, the pre-cleared CDS is registered to a confirmation platform to apply for clearing. On the next business day, the parties to the transaction may modify details of the transaction, after which it is sent to JSCC. JSCC will clear the trade at 4:00 p.m. on the third business day.

Clearing of IRS, including over-the-counter transactions, transactions executed through electronic trading platforms provided by institutions registered at the JFSA, or SEF (Swap Execution Facilities) registered at the CFTC, is conducted on each business day during the periods of 9:00 a.m. to 12:00 p.m., 1:00 p.m. to 4:00 p.m., and 5:30 p.m. to 7:00 p.m. Specifically, upon receipt of an application for clearing a new trade from a Clearing Participant, JSCC calculates the amount of variation margin and initial margin required to cover the entire portfolio, including both the new transaction (if a new trade is part of a Package Trade<sup>24</sup>, then all new transactions under the relevant Package Trade) and all existing cleared transactions. If the required variation margin and initial margin are at least equal to Clearing Participant’s deposited collateral, JSCC would clear the new trade.

OTC JGB transactions are cleared once per day, at 6:30 p.m. DVP settlement of OTC JGB transactions is conducted through RTGS (Real-time Gross Settlement) provided by the BOJ.

JSCC outsources all development and operations related to IT systems. It appropriately manages outsourcing arrangements according to clearly defined outsourcing guidelines and criteria. The development and operations of IT systems for JSCC’s Listed Product (Cash Products and Listed Derivatives) Clearing Business and OTC JGB Clearing Business are outsourced to TSE, while those for the CDS and IRS Clearing Businesses are outsourced to Tocho System Services (TSS). Both TSE and TSS are JPX subsidiaries, and therefore affiliated with JSCC.

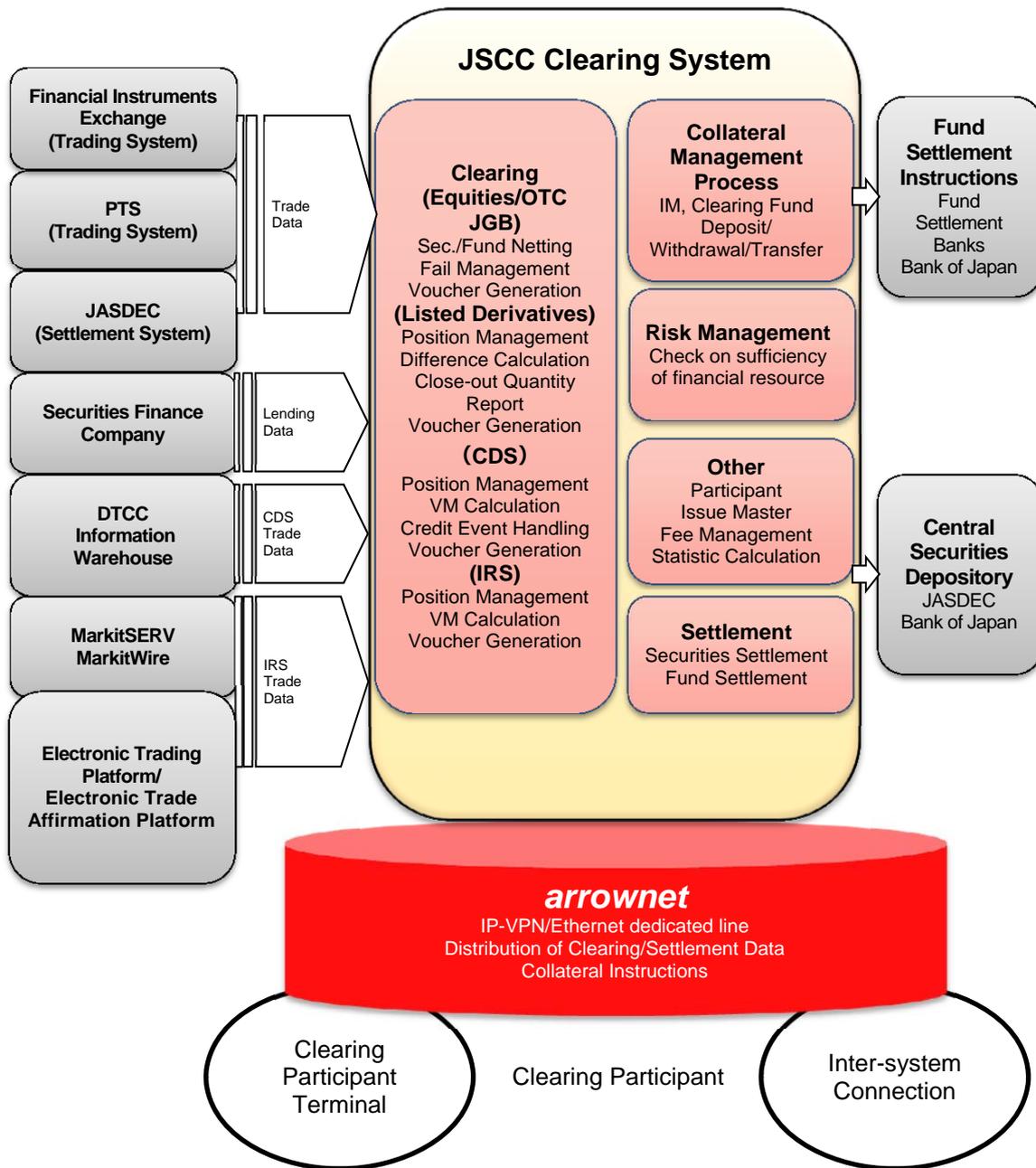
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<sup>22</sup> See JSCC’s press release on “[https://www.jpjx.co.jp/jscj/en/information/press\\_releases/i1h00a0000002w0d-att/JSCC-press-release\\_FINMA-recognized\\_foreign\\_CCP\\_en.pdf](https://www.jpjx.co.jp/jscj/en/information/press_releases/i1h00a0000002w0d-att/JSCC-press-release_FINMA-recognized_foreign_CCP_en.pdf)” for details.

<sup>23</sup> Settlement cycle for cash trades is scheduled to be shortened to “T+2” in 2019.

<sup>24</sup> By using “Package Trade,” a Clearing Participant may apply to clear multiple eligible IRS Transactions in bulk (Article 2.(4)-2 of the Interest Rate Swap Clearing Business Rules).

General Background of the FMI III-4: JSCC System Overview



## IV. Principle-by-Principle Summary Narrative Disclosure

### General Organization

#### **Principle 1: Legal Basis**

*An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.*

#### **Key Consideration 1:**

**The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions.**

#### Material aspects and relevant jurisdictions

JSCC views the following activities to require a high degree of legal certainty:

- Trade clearing
- Netting
- Settlement finality
- DVP arrangements
- Linkages with other FMIs
- Collateral arrangements
- Default management arrangements

\*While JSCC also views Recovery and Resolution in the event of FMI (CCP) default to be a matter requiring a high degree of legal certainty, details on such arrangements will be determined according to international regulatory trends.

#### Legal Basis for each Material Aspect and Relevant Jurisdiction

JSCC's activities are governed by Japanese laws and regulations, including the FIEA, Civil Code, Companies Act, and the "Cabinet Office Ordinance on Financial Instruments Clearing Organization, etc."

However, within JSCC's CDS Clearing Business, the terms and conditions of cleared CDS transactions are governed by and interpreted according to English law in the absence of specific provisions otherwise.

Furthermore, JSCC is subject to the supervision of the JFSA in accordance with the "Comprehensive Guidelines for Supervision of Financial Market Infrastructures," which covers all aspects of an FMI's business and operations.

JSCC's Business Rules are approved by the Prime Minister of Japan, in accordance with the FIEA<sup>25</sup>. JSCC's rules are authorized pursuant to such requirement. JSCC concludes a Clearing Participant Agreement with each Clearing Participant under which the Clearing Participant is required to comply with JSCC's Business Rules. Thereby, JSCC's Business Rules are legally binding as they are positioned as the contract between JSCC and each Clearing Participant.

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<sup>25</sup> FIEA Articles 156-3 and 156-12

The relationships between JSCC, its Clearing Participants, and customers are governed by JSCC'S Business Rules, which set out the rights and obligations of each. JSCC's Rules and Clearing Participant Agreements state that all of JSCC's Clearing Businesses are governed by the laws of Japan and fall under the jurisdiction of the Tokyo District Court.

#### Provisions relating to Trade Clearing

JSCC's Business Rules detail the process of the "Financial Instruments Obligation Assumption Service" for which JSCC holds a license under the FIEA. JSCC's clearing services are conducted in accordance with the FIEA.

#### Provisions relating to Netting

JSCC's Business Rules have specific provisions related to close-out netting arrangements for claims and obligations between JSCC and Clearing Participants in the case of a Clearing Participant default. Additionally, the FIEA<sup>26</sup> prescribes that JSCC's close-out netting process shall prevail over general bankruptcy proceedings.

#### Provisions relating to Settlement Finality

JSCC's rules and operational procedures (documents prescribing handling of clearing operations in accordance with the rules) contain provisions dealing with settlement finality, and detail the point at which fund/securities settlement between JSCC and its Clearing Participants are settled. This provides certainty to all of JSCC's Clearing Participants as to the finality related to the performance of their obligations to JSCC. See Principle 8 (Settlement Finality) for further details.

#### Provisions relating to DVP Arrangements

Settlement for Cash Products and JGBs is conducted by DVP. DVP settlement for Cash Products is conducted by linking book-entry transfer at Japan Securities Depository Center, Inc. ("JASDEC") with fund settlement at Fund Settlement Banks, in accordance with JSCC's rules<sup>27</sup>. DVP settlement for JGBs<sup>28</sup> is conducted through RTGS (Real-Time Gross Settlement) provided by the BOJ.

All securities settlements (book-entry transfer) are conducted according to Japanese law (Act on Book-entry Transfer of Company Bonds, Shares, etc.).

#### Provisions relating to Linkage with other FMIs

JSCC currently only has links to CSD (Central Securities Depository) and Trade Repositories. See Principle 20 (FMI Links) for further details.

#### Provisions relating to Collateral Arrangements

JSCC holds collateral deposited by Clearing Participants and customers in the manner specified in Principle 16 (Custody and Investment Risks).

Clearing Participant and customer collateral is segregated from JSCC's own assets, in

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<sup>26</sup> FIEA Article 156-11-2

<sup>27</sup> Listed Products Clearing Business Rules Chapter 5

<sup>28</sup> Japanese Government Bond Over-the-Counter Transaction Clearing Business Rules Chapter 5

compliance with the requirements of the FIEA<sup>29</sup>. JSCC may, however, use collateral to satisfy obligations owed to it following the default of a Clearing Participant, where the conditions of the FIEA and JSCC's Business Rules are met.

Collateral deposited by Clearing Participants with JSCC is treated as "Clearing Margin" as defined in Article 119 of the FIEA for the Listed Products (Derivatives) Clearing Business, and "Clearing Deposit" as defined in Article 156-11 of the FIEA for other collateral. The FIEA gives JSCC the right to receive payment from "Clearing Margin" and "Clearing Deposit" before other creditors.

#### Provisions relating to Default Management Arrangements

The FIEA<sup>30</sup> states that, in the event of a Clearing Participant default, a CCP's rules shall prevail over general bankruptcy proceedings for the settlement of cleared trades between the defaulting Clearing Participant and the CCP.

#### **Key Consideration 2:**

**An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.**

JSCC's rules (including amendments) are developed via a process which includes consultation with Clearing Participants, lawyers, the JFSA and other relevant regulators, as necessary. Through this process, JSCC confirms that its rules are consistent with laws and regulations.

To date, no conflict between JSCC's rules, procedures, and contracts and relevant laws and regulations have been identified.

JSCC also removes uncertainty in its rules and prevents misinterpretation by holding informal discussions with Clearing Participants and discussions in advisory committees and by conducting public consultations on the outline of new rules or amendments to existing rules, except for insignificant rule changes.

#### **Key Consideration 3:**

**An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.**

JSCC makes explanations of the legal basis for its activities widely available via its website, in presentations to the advisory committee for each Clearing Business, and in meetings with Clearing Participants or their customers.

#### **Key Consideration 4:**

**An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.**

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<sup>29</sup> FIEA Article 119, Paragraph 4 and Cabinet Office Ordinance on Financial Instruments Exchanges, etc. Article 67

<sup>30</sup> FIEA Article 156-11-2

## Enforceability of JSCC's Rules, Procedures, and Contracts

JSCC's Rules, Procedures, and Contracts are written to ensure they have contractual force in all relevant jurisdictions. (See Key Consideration 1 of this Principle for further details.)

The FIEA<sup>31</sup> stipulates that in the event of a Clearing Participant default, a CCP's rules shall prevail over general bankruptcy proceedings for the settlement of cleared trades between the defaulting Clearing Participant and the CCP, allowing JSCC's rules to limit the impact of the insolvency of a Clearing Participant on JSCC's Clearing Businesses.

In the event of the commencement of bankruptcy proceedings in a foreign jurisdiction against a Clearing Participant, the effect of such bankruptcy proceedings extend to Japan only upon a Japanese Court's order of recognition of such proceedings, as specified in the "Act on Recognition of and Assistance for Foreign Insolvency Proceedings." Such proceedings shall apply to the properties of a defaulting Clearing Participant only upon the issuance of an assistance order by a Japanese court. Unless a Japanese court issues such an order, bankruptcy proceedings in a foreign jurisdiction do not directly apply to Japan and will not put collateral posted to JSCC by a defaulting Clearing Participant at risk, even in the event of the default of a foreign Clearing Participant.

## Degree of Certainty for JSCC's Rules and Procedures

JSCC has confirmed that there are no issues with Japanese law being the governing law of JSCC's Clearing Businesses or the effectiveness of English law with respect to the terms of CDS contracts.

JSCC's Business Rules are subject to approval as required under the FIEA<sup>32</sup>. In this process, the Business Rules are examined to ensure they conform to laws and regulations and are sufficient for conducting Clearing Services appropriately and smoothly. To date, there has been no instance of any regulatory action taken against any of JSCC's activities in Japan or abroad.

### **Key Consideration 5:**

**An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.**

JSCC continuously identifies and analyzes possible conflict-of-law issues based on the latest information from Clearing Participants, law firms, and regulatory bodies, including the JFSA.

Some of JSCC's Clearing Participants are established in EU countries, with their operations in Japan registered under the FIEA. Due to this, JSCC has obtained the recognition as Third Country CCP under European Market Infrastructure Regulation from European Securities and Markets Authority of EU, enabling JSCC to provide services to Clearing Participants and trading venues established in the European Union<sup>33</sup>.

In Australia, JSCC received designation as a Prescribed Facility under Corporations

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<sup>31</sup> FIEA Article 156-11-2

<sup>32</sup> FIEA Articles 156-3 and 156-12

<sup>33</sup> See JSCC's press release on "[https://www.jpjx.co.jp/jscj/en/information/press\\_releases/n5ks8e000000055k-att/JSCC-press-release\\_TC-CCP\\_en1.pdf](https://www.jpjx.co.jp/jscj/en/information/press_releases/n5ks8e000000055k-att/JSCC-press-release_TC-CCP_en1.pdf)" for details.

Amendment (Central Clearing and Single-Sided Reporting) Regulation 2015 (Select Legislative Instrument No.157, 2015)<sup>34,35</sup>.

Some Affiliates of Clearing Participants that clear their CDS or IRS trades in JSCC are categorized as U.S. Persons under the CFTC guidelines<sup>36</sup>. Therefore, to allow these trading entities to access JSCC's swap Clearing Services, JSCC has obtained an order of exemption from registration as a Derivatives Clearing Organization under the Commodity Exchange Act, from the CFTC.<sup>37</sup>

Some of the Clearing Participants that clear IRS through JSCC are incorporated in Hong Kong. Therefore, JSCC has obtained authorization from the SFC of Hong Kong, to provide Automated Trading Services, and the designation as central counterparty that can be used for the observance of mandatory clearing obligations, under the SFO<sup>38</sup>.

Some of the Clearing Participants that clear IRS in JSCC are incorporated in Switzerland. Therefore, JSCC has been recognized as Foreign Central Counterparty under the Financial Market Infrastructure Act from the Financial Market Supervisory Authority of Switzerland to offer IRS Clearing Services to those trading entities<sup>39</sup>.

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<sup>34</sup> Currently, Corporations Regulations 2001(Statutory Rules No.193, 2001).

<sup>35</sup> See JSCC's press release on "[https://www.jpjx.co.jp/jscj/en/information/press\\_releases/n5ks8e000000054c-att/JSCC-press-release\\_Prescribed-CCP\\_en1.pdf](https://www.jpjx.co.jp/jscj/en/information/press_releases/n5ks8e000000054c-att/JSCC-press-release_Prescribed-CCP_en1.pdf)" for details.

<sup>36</sup> U.S. Person defined in the "Interpretive Guidance and Policy Statement regarding Compliance with Certain Swap Regulations (78 Fed.Reg.45292 (July 26, 2013)) IV. A.1." published by the CFTC. See CFTC Guidelines on <http://www.cftc.gov/idc/groups/public/@lrfederalregister/documents/file/2013-17958a.pdf> for details.

<sup>37</sup> See JSCC's press releases on [https://www.jpjx.co.jp/jscj/en/information/press\\_releases/n5ks8e000000053q-att/JSCC-press-release\\_CFTC-Exemption\\_en1.pdf](https://www.jpjx.co.jp/jscj/en/information/press_releases/n5ks8e000000053q-att/JSCC-press-release_CFTC-Exemption_en1.pdf) and "[https://www.jpjx.co.jp/jscj/en/information/press\\_releases/i1h00a00000000yef-att/JSCC-press-release\\_CFTC-Amended\\_Exemption\\_en.pdf](https://www.jpjx.co.jp/jscj/en/information/press_releases/i1h00a00000000yef-att/JSCC-press-release_CFTC-Amended_Exemption_en.pdf)" for details.

<sup>38</sup> See JSCC's press release on [https://www.jpjx.co.jp/jscj/en/information/press\\_releases/n5ks8e000000051w-att/JSCC\\_HK\\_ATSCCP\\_e.pdf](https://www.jpjx.co.jp/jscj/en/information/press_releases/n5ks8e000000051w-att/JSCC_HK_ATSCCP_e.pdf) for details.

<sup>39</sup> See JSCC's press release on "[https://www.jpjx.co.jp/jscj/en/information/press\\_releases/i1h00a00000002w0d-att/JSCC-press-release\\_FINMA-recognized\\_foreign\\_CCP\\_en.pdf](https://www.jpjx.co.jp/jscj/en/information/press_releases/i1h00a00000002w0d-att/JSCC-press-release_FINMA-recognized_foreign_CCP_en.pdf)" for details.

## **Principle 2: Governance**

***An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.***

### **Key Consideration 1:**

**An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.**

Under the FIEA and the JFSA's "Comprehensive Guidelines for Supervision of Financial Market Infrastructures -Clearing Organizations, Fund Clearing Organizations, Book-entry Transfer Institutions, and Trade Repositories-," a CCP is required to contribute to the stability of the financial system through the precise execution of its clearing operations under proper risk management. JSCC's clearing operations are subject to the supervision of the JFSA. Toward that purpose, JSCC, in its role as an FMI, provides the following as its Corporate Philosophy:

*"JSCC, with a solid risk-management framework, aims to enhance the competitiveness of Japanese financial and capital markets by improving the efficiency, serviceability and safety of financial market post-trade processing infrastructure."<sup>40</sup>*

JSCC's officers and employees are required to conduct operations based on this Corporate Philosophy.

JSCC lays out business policies in its "Medium-Term Business Plan," which is created based on its Corporate Philosophy, and uses those policies to formulate detailed business plans. JSCC's Board of Directors reviews the achievement of the business plans annually and analyzes whether they achieve results that are consistent with JSCC's Corporate Philosophy.

### **Key Consideration 2:**

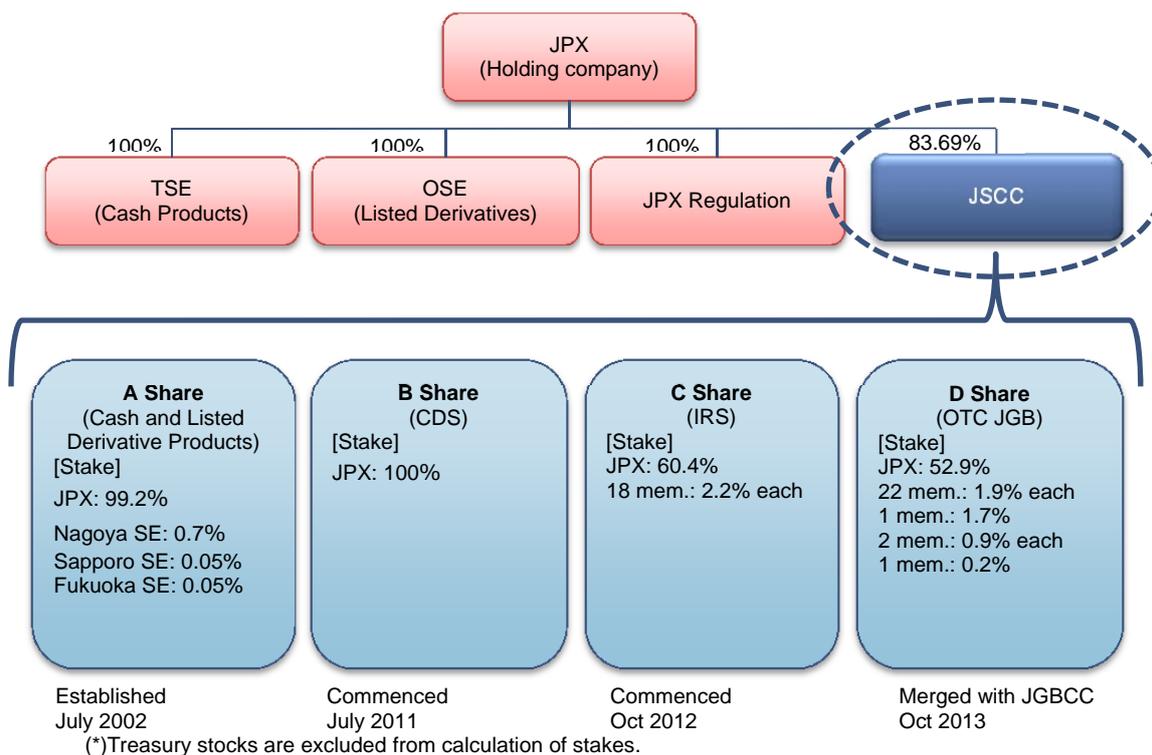
**An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.**

JSCC is established as a joint-stock company, under the Companies Act of Japan, and operates as a CCP majority owned by JPX, the holding company of TSE, OSE, and Japan Exchange Regulation, as shown below.

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<sup>40</sup> <https://www.jpx.co.jp/jsccl/en/company/philosophy.html>

## Principle 2 (Governance) Key Consideration 2 IV-1: Shareholder Composition



The corporate governance of JPX, which is JSCC's controlling shareholder, is detailed below. Its fundamental approach seeks to fulfill JPX's social mission, by serving as vital public infrastructure in the form of Japan's central financial instruments market. This is consistent with JSCC's governance that realizes the aim of an FMI, as detailed in its Corporate Philosophy.

### *JPX's Basic View to Corporate Governance*

#### *<Corporate philosophy and social mission>*

*JPX group operates markets that are a public asset and fulfills its social mission by pursuing the sustainable development of its markets.*

#### *<Market operations>*

*JPX group operates the markets with the view that garnering support for and fostering confidence in the markets it establishes is in the common interest of all investors and market users, and maintaining and enhancing the support and confidence will build the foundations for sustainable development of its markets.*

#### *<Enhanced corporate value>*

*In order for JPX group to pursue sustainable development of its markets, it must continue to accommodate the diverse needs of shareholders and other stakeholders, thereby enhancing corporate value over the medium to long term.*

#### *<Effective corporate governance>*

*JPX group strives to constantly improve its corporate governance system to further facilitate effective and proper systems, so as to support the sustainable development of its markets.<sup>41</sup>*

JSCC is subject to the supervision of the JFSA in accordance with the FIEA. JSCC's Articles

<sup>41</sup> <https://www.jpj.co.jp/english/corporate/about-jpx/co-governance/index.html>

of Incorporation, which provide for its fundamental governance arrangements, satisfy the detailed governance requirements for a CCP as provided in the FIEA, the “Cabinet Office Ordinance on Financial Instruments Clearing Organization, etc.,” the “Comprehensive Guidelines for Supervision of Financial Market Infrastructures,” and other laws and regulations

### Governance Arrangements

All of JSCC’s clearing activities take place within four Clearing Business units: Listed Products (Cash Products and Listed Derivatives), CDS, IRS, and OTC JGB. Each Clearing Business maintains its own capital and share class, with business decisions made according to resolutions by the general shareholders meeting and class-shareholders meeting.

JSCC’s Board of Directors is composed of three full-time directors (the President and CEO, Executive Vice President, and Managing Director) as well as six part-time directors. The Board of Directors makes decisions on JSCC’s business activities according to its resolutions, nominates executive officers to execute such activities, and supervises the propriety of officers’ performance of duties.

Directors that represent the opinions of each Clearing Business are nominated to the Board of Directors. The Articles of Incorporation include provisions requiring directors to respect the opinions of each Clearing Business’s advisory committee in order to establish proper governance.

Through a resolution of the Board of Directors, the executive officers (officers in charge of JSCC’s business execution) are appointed, and the Board of Executive Officers, the purpose of which is to discuss the matters to be submitted to the Board of Directors, is formed by all of the executive officers.

JSCC has a Chief Risk Officer (“CRO”) who is independent from each clearing business unit, and is the officer in charge of risk management. The CRO reports, and provides recommendations, to the Board of Directors, and the Risk Oversight Committee. The Risk Oversight Committee is an internal forum for the discussion and information-sharing of risk management issues, and the status of implementation of the risk management system, as well as the Risk Appetite Statement, the identification of material risks, and any required countermeasures. The Risk Oversight Committee is composed of the President & CEO, executive officers supervising each business unit, division heads, CRO and other Risk Management Office staff, and auditors.

JSCC possesses a board of statutory auditors, composed of three highly independent auditors nominated at the general shareholders meeting. The Companies Act sets forth the Statutory Auditors’ authority to investigate company business and assets, to request a meeting of the Board of Directors, to report on the improper conduct of a director, and the obligation and responsibility to report results of audits to shareholders, in order to ensure the lawfulness of director’s activities.

The names and roles of the advisory committees for each of JSCC’s Clearing Businesses are as follows:

#### *Risk Committee*

In cases where JSCC intends to make decisions on any matter considered necessary in the performance of its responsibilities related to risks of the Clearing Businesses, JSCC shall seek advice from the Risk Committee. The committee is composed of members that are external directors of JSCC, Clearing Participants, their customers and other persons with excellent knowledge and experience in the matter of consultation.

#### *Disciplinary Measures Assessment Committee*

In cases where JSCC exercises its authority under the Business Rules of each Clearing Business to take necessary measures against Clearing Participants, JSCC shall seek advice from the Disciplinary Measures Assessment Committee. The committee possesses the necessary knowledge and experience regarding relevant laws, accounting standards, and the market and is composed of members that are independent from JSCC.

#### *Listed Products Management Committee*

This committee serves to provide an understanding of Clearing Participants' demands related to the Listed Products (Cash Products and Listed Derivatives) Clearing Business, ensure JSCC's rules and operations reflect the opinions of Clearing Participants from an operational perspective, and discuss rules and operational matters in response to inquiries from the Board of Directors. Committee members are selected from Clearing Participants, taking into consideration member diversification including the type and scale of their business.

#### *CDS Management Committee*

#### *IRS Management Committee*

#### *OTC JGB Management Committee*

These committees deliberate on matters for consultation concerning the operation of each Clearing Business set forth in the Business Rules and subordinate rules for their respective Clearing Businesses, in response to inquiries from the Board of Directors. The committees are composed of Clearing Participants (IRS Management Committee and JGB OTC Management Committee also include shareholders).

#### *JSCC Determination Committee*

This committee determines matters for the CDS Clearing business, including matters concerning Credit Events and Succession Event. Committee members are selected from Clearing Participants.

#### *CDS Default Management Committee*

#### *IRS Default Management Committee*

#### *OTC JGB Default Management Committee*

These committees offer advice on matters such as hedging when the default of a Clearing Participant is determined and bidding during default auctions. Members of these committees are selected from Clearing Participants.

Responsibility for operations rests with the related executive officer or CRO. The names and roles of each division are as follows:

#### *Risk Management Office*

The Risk Management Office, supervised by the CRO, is composed of the Risk Management Division and the Risk Monitoring Division. The Risk Management Division is responsible for the comprehensive risk management operation under the Risk Appetite Framework Management Policy. The Risk Monitoring Division is responsible for the planning and drafting of Clearing Participant rules, as well as matters related to clearing/settlement rules and the examination/monitoring of Clearing Participants.

#### *Corporate Planning Division*

In addition to acting as the secretariat for the general shareholders meeting and the Board of Directors, Corporate Planning also handles general affairs, accounting, and human resources.

#### *Strategic Planning Division*

Strategic Planning is responsible for formulating management and business plans and

managing their execution, in addition to general management matters.

*System Planning Division*

System Planning is responsible for comprehensive planning, strategy, and supervision of IT-related matters, and management and coordination of system-related projects.

*Listed Products Clearing Service*

This clearing service is responsible for planning and drafting of clearing/settlement rules and frameworks, and settlement control of products subject to clearing for Listed Products.

*OTC Derivatives Clearing Service*

This clearing service is responsible for planning and drafting of clearing/settlement rules and frameworks, and settlement control of products subject to clearing for OTC derivatives.

*OTC JGB Clearing Service*

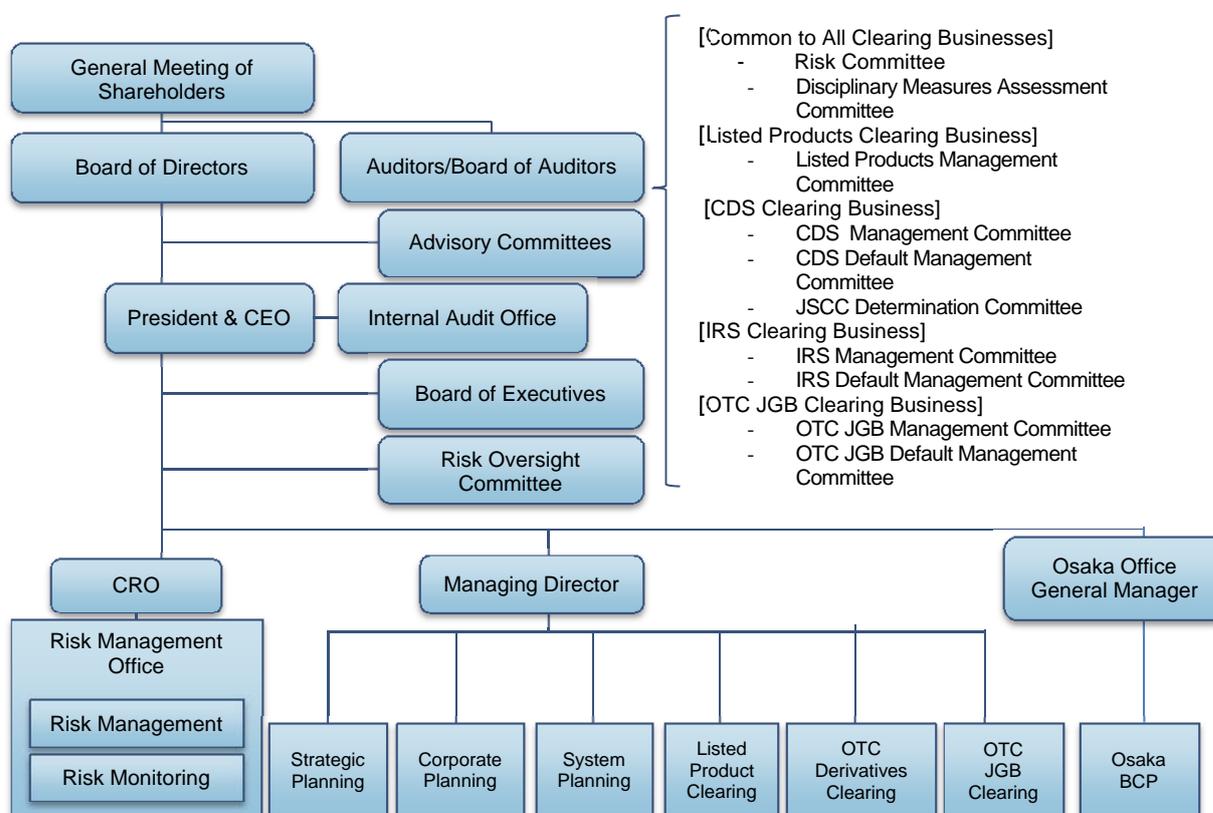
This clearing service is responsible for planning and drafting of clearing/settlement rules and frameworks, and settlement control of products subject to clearing for OTC JGBs.

Moreover, to be ready for the case where JSCC's facilities in Tokyo become unavailable due to a wide-area disaster, JSCC also has an office in Osaka (Osaka Office) to strengthen the necessary structures for BCP.

*Internal Audit Office*

The Internal Audit Office is responsible for conducting audits to confirm the proper execution of business and reports its audit results to the President & CEO and the Board of Statutory Auditors.

## Principle 2 (Governance) Key Consideration 2 IV-2: Company Organization



### Disclosure

JSCC published its Governance Guidelines, containing, among other things, the roles and responsibilities of the Board of Directors<sup>42</sup>. Moreover, JSCC publishes its Annual Report on its corporate website<sup>43</sup>. The Annual report includes a detailed review of JSCC's shareholders, the composition of its Board of Directors and Auditors, and an overview of its advisory committees.

### Key Consideration 3:

**The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its function, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.**

### Roles and Responsibilities of the Board of Directors

JSCC's Board of Directors oversees all of JSCC's business activities and is accountable to its shareholders. The main duties and authority of the Board of Directors and the procedures for

<sup>42</sup> Available at: "[https://www.jpx.co.jp/jscce/en/risk/cimhll00000005q9-att/GG\\_E.pdf](https://www.jpx.co.jp/jscce/en/risk/cimhll00000005q9-att/GG_E.pdf)"

<sup>43</sup> Available at: "<https://www.jpx.co.jp/jscce/en/company/annual.html>"

the Board meetings are prescribed in the Companies Act, JSCC's Articles of Incorporation and Rules of Board of Directors.

The main duties of the Board of Directors include approval of the following:

- High-level policies, strategies, and objectives of JSCC, including the medium-term business plan;
- Annual budgets and investment proposals
- Internal control framework to secure the adequacy of internal procedures, risk management, financial reporting, and compliance;
- Appointment and dismissal of the President & CEO

#### Managing Conflicts of Interest

The Companies Act<sup>44</sup> provides for managing conflicts of interest between the Board of Directors and individual directors by requiring the disclosure of material facts to and approval from the Board in cases where a director seeks to engage in transactions competing against JSCC's business, or which would result in a conflict of interest.

Auditors are obligated by the Companies Act<sup>45</sup> to report to the Board of Directors, without delay, illegal actions, violations of laws, regulations, or the Articles of Incorporation, or significantly inappropriate facts in relation to the duties of directors, as well as report the results of their investigations to the general shareholders meeting. As such, auditors investigate transactions involving conflicts of interest when preparing audit reports annually.

Furthermore, both the Companies Act<sup>46</sup> and JSCC's Rules of Board of Directors contain provisions prohibiting a director with a special interest in a subject matter from voting on such matter.

#### Measures to Facilitate the Functioning of the Board of Directors

JSCC holds a Board of Statutory Auditors<sup>47</sup>, which serves the same function as an audit committee. The duties of the Board of Statutory Auditors are defined in the Companies Act, and include duties such as preparing audit reports, appointing and removing full-time statutory auditors, deciding audit policy, deciding the method to investigate the status of business and assets of the company, and other matters related to the execution of the auditor's duties<sup>48</sup>.

#### Review of Performance of Board of Directors

Shareholders are able to monitor the performance of the Board of Directors via the business report submitted to the general shareholders meeting. The report contains information on achievement of management policies and business plans, defined in the medium-term management plan and financial results.

For the performance of individual directors, records of each director's participation in board

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<sup>44</sup> Companies Act Articles 356 and 365

<sup>45</sup> Companies Act Article 381, Paragraph 1 and Article 384

<sup>46</sup> Companies Act Article 369, Paragraph 2

<sup>47</sup> Companies Act Article 2, Item 10

<sup>48</sup> Companies Act Article 390, Paragraph 2

meetings and other meetings, including remarks in such meetings, are used as reference during future nomination processes.

**Key Consideration 4:**

**The board should contain suitable members with the appropriate skills and incentives to fulfill its multiple roles. This typically requires the inclusion of non-executive board member(s).**

Board Member's Skills

The FIEA<sup>49</sup> requires that a CCP's personnel be composed of individuals that "have sufficient knowledge and experience for conducting Financial Instruments Obligation Assumption Service appropriately and certainly and have sufficient social credibility," and nominations to the Board of Directors are made in accordance with such requirements.

Pursuant to the specific nominating criteria established by the Board of Directors, JSCC appoints board members who have a broad range of relevant financial markets industry experience, qualifications, and industry knowledge. In the nomination process during the general shareholders meeting, the background of candidates is present, and their skills are confirmed.

The backgrounds of board members are publicized via JSCC's website.

Board Member Incentives

Board member compensation has been set with suitable standards to retain and motivate individuals with appropriate abilities and incentives, to secure long-term interests.

Additionally, the compensation of each director is determined annually by the Compensation Committee, based on the performance of each individual, within the total aggregate amount of board member compensation decided on in the general shareholders meeting.

**Key Consideration 5:**

**The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.**

Roles and Responsibilities of Management

JSCC's senior management is composed of 4 executive officers. In accordance with resolutions of the Board of Directors, the senior management executes JSCC's business plans and oversees daily operations.

The duties of the senior management are set out in JSCC's internal rules and include:

- Making key decisions on the management and operations of JSCC;
- Managing JSCC expenses and investments;
- Executing and managing JSCC's business within the framework of the board-approved Medium-Term business plan;
- Making decisions on matters to be submitted to the Board of Directors in relation to JSCC's policies, strategy, and financial objectives.

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<sup>49</sup> FIEA Article 156-4, Paragraph 1

The senior management report on JSCC's operations to the Board of Directors on a quarterly basis and present a business report and financial results to shareholders annually, following approval by the Board of Directors. Shareholders are thereby able to evaluate the performance and accomplishments of senior management in light of JSCC's role as a CCP and are required to appoint candidates.

#### Experience, Skills, and Integrity

JSCC has confirmed that its senior management meet the qualifications required by the Companies Act and FIEA. JSCC's senior management have diverse experience across exchange operation, banking management, and clearing, risk management, and information technology.

Profiles of the members of JSCC's Board of Directors are available on JSCC's website.

The Board of Directors have the authority to seek a general shareholders meeting resolution to initiate the dismissal of any director failing to fulfill their duties or otherwise bringing JSCC into disrepute, pursuant to procedures specified in the Companies Act.

#### **Key Consideration 6:**

**The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.**

#### Risk Management Framework

JSCC's Board of Directors identifies the risks JSCC is exposed to and has established the Risk Appetite Framework Management Policy as part of its risk management framework, to articulate JSCC's risk appetite (risk tolerance). JSCC has published, on its website, its Risk Appetite Statement, as part of the Risk Appetite Framework Management Policy and is developed in light of requests from, and the expectations of, Clearing Participants, their customers, regulatory authorities, the officers and employees of JSCC, and other stakeholders<sup>50</sup>. JSCC has a Risk Management Policy which details JSCC's approach to handling the risks identified under the Risk Appetite Framework Management Policy. JSCC receives regular reports on the state of compliance with the Risk Management Policy and can take appropriate measures as necessary. See Principle 3 (Framework for the Comprehensive Management of Risks) for further details.

JSCC's Board of Directors also receives a report at least once a year on the results of a review of the risk appetite, and can take appropriate measures in response, as necessary.

In addition, the Board of Directors will also receive a report following a serious risk event, such as a Clearing Participant default or critical system failure, to take action as necessary.

Within JSCC, the Risk Management Division of the Risk Management Office is responsible for confirming each division's compliance with the Risk Management Policy, while the Internal Audit Office is responsible for conducting audits to confirm the proper execution of business by each department, including the Risk Management Division. The auditing of each Clearing Business division is conducted properly with cooperation between both the Risk Management Division and the Internal Auditing Office.

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<sup>50</sup> Available at: "[https://www.jpjx.co.jp/jscj/en/risk/i1h00a0000001bhh-att/RAS\\_E.pdf](https://www.jpjx.co.jp/jscj/en/risk/i1h00a0000001bhh-att/RAS_E.pdf)"

**Key Consideration 7:**

**The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.**

Identification and Consideration of Stakeholder Interests

JSCC makes its business decisions with consideration given to the interests of stakeholders such as Clearing Participants and their customers.

As stated in Key Consideration 2 of this Principle, the Listed Products Management Committee, CDS Management Committee, IRS Management Committee, and JGB OTC Management Committee all include Clearing Participants (IRS Management Committee and JGB OTC Management Committee also include shareholders) as members. The Board of Directors makes inquiries to these advisory committees when deciding upon significant changes to operations or the Business Rules. Opinions are also collected from a wide range by soliciting public comments on new rules and significant rule changes in advance.

JSCC also consults the relevant Default Management Committees, which are composed of Clearing Participants, on hedging measures and default auctions in the event of a Clearing Participant default in the CDS, IRS, or OTC JGB Clearing Businesses.

Disclosure

JSCC publicizes major decisions by the Board of Directors on its website, including the Medium-Term Business Plan, significant rule revisions, and candidates for the Board of Directors.

### **Principle 3: Framework for the Comprehensive Management of Risks**

***An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.***

#### **Key Consideration 1:**

**An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.**

#### Risks that arise in or are borne by JSCC

JSCC is exposed to various risks, such as credit risk, liquidity risk, operational risk (including general operational risk, IT system risk and business continuity risk), settlement risk, custody risk, investment risk, concentration risk, legal risk, business risk, risk concerning anti-social forces, and other risks (including risks concerning business management and compliance).

#### Risk Governance

JSCC's Corporate Philosophy clarifies the importance of risk management and forms the foundation of JSCC's risk governance, as follows:

*"JSCC, with a solid risk-management framework, aims to enhance the competitiveness of Japanese financial and capital markets by improving the efficiency, serviceability and safety of financial market post-trade processing infrastructure."<sup>51</sup>*

Under its Corporate Philosophy, JSCC's management policy is (i) Reinforcement of Clearing Functions, Risk Management and IT Systems towards Service Quality Improvement and (ii) Reinforcement of the Company's Role as Core Infrastructure through Expansion of the Scope of Services.

Under its Corporate Philosophy and management policy, JSCC has established its Risk Appetite Framework Management Policy as a framework for the business management to systematically manage various risks, under which JSCC stipulates a Risk Appetite Statement concerning each risk, to clarify its attitude towards the risk management, and has defined the Risk Management Policy to deal with them. JSCC has published the Risk Appetite Statement on its website<sup>52</sup>.

The Risk Management Policy clarifies the purpose, policies, and management of the risk management framework, including sound risk governance, stringent participant eligibility requirements, a robust margin framework, Clearing Fund and Loss Compensation Scheme, liquidity risk management, default management, and business continuity plan ("BCP").

Under the Risk Management Policy, JSCC has rules and policies for handling the specified risks. These consist primarily of the following:

- In order to handle Clearing Participant credit risk, JSCC has defined a risk management system, including Clearing Participant rules, margin rules, a Clearing Fund and Loss Compensation Scheme, and default management procedures in its Business Rules and subordinate rules;

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<sup>51</sup> <https://www.jpj.co.jp/jscj/en/company/philosophy.html>

<sup>52</sup> Available at: "[https://www.jpj.co.jp/jscj/en/risk/i1h00a0000001bhh-att/RAS\\_E.pdf](https://www.jpj.co.jp/jscj/en/risk/i1h00a0000001bhh-att/RAS_E.pdf)"

- In order to handle operational risk, JSCC has defined a “BCP Basic Plan” to minimize the impact of interruptions to operations and lay out business continuity measures in case of the realization of various risk factors. Additionally, JSCC has defined (a) an “Information Security Basic Policies” and “Information Security Countermeasure Standards” providing for access control and information protection, (b) “Rules for Operational Management” providing for matters for stable operations, such as the preparation of operation manuals and checklists, and procedures to deal with abnormal events, (c) “Rules for Management of Outsourcing” which provide for vendor selection processes and continuous monitoring and control of outsourced activities, and (d) the “System Risk Management Policy” and “System Risk Management Rules” which provide for the policy and procedures for addressing risks arising from IT system use;
- In order to handle settlement and custody risks, JSCC has defined the “Policies for Designation of Japanese Yen Fund Settlement Banks,” “Policies for Designation of Foreign Currency Fund Settlement Banks” and “Policies for Designation of Custodians of Posted Collateral,” which provide for criteria and procedures for designating banks as Fund Settlement Banks and/or collateral custodians; and
- In order to handle investment risk, JSCC has defined the “Policies for Fund Management of Own Assets” and “Policies for Management of Posted Collateral,”<sup>53</sup> which provide for the scope and methods of such management.

### Comprehensive Risk Management Framework

JSCC has established a comprehensive risk management framework to supervise and manage risks and ensure that responsibilities and accountabilities are clearly defined. Specifically, JSCC’s Board of Directors defines the aforementioned Corporate Philosophy, Management Policy, and Risk Appetite Framework Management Policy and, for the business operations covered by the Risk Appetite Framework, defines and executes the comprehensive risk management operation comprised of the establishment of a Risk Appetite, the validation of suitability and the management based on the Risk Appetite, as follows.

- Management under the Risk Appetite is comprised of the verification of compliance with the Risk Management Policy, the validation of various risk management frameworks, such as margin frameworks, and the preventive management related to material risks.
- For the management of status of compliance with the Risk Management Policy, the Risk Management Policy has been established to details the relevant policies to respond to various risks, and each division responsible for the relevant risk will act according to the Risk Management Policy and report the status of compliance to the Risk Management Division.
- The Risk Management Division will compile and evaluate the reports received from divisions responsible for the management of each risk. The CRO shall report the status of compliance with the Risk Management Policy monthly, quarterly, and annually to the Risk Oversight Committee and offer proposals as necessary. Additionally, the CRO shall report the status of compliance with the Risk Management Policy to the Board of Directors quarterly and annually, in principle, and offer proposals as necessary.

The Risk Committee, comprised of external members with risk management knowledge, is consulted on the comprehensive risk management operation.

### Regular Revision of the Risk Appetite, Risk Management Policy and Risk Management System

JSCC’s Board of Directors will review the Risk Appetite, Risk Management Policy and Risk

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<sup>53</sup> <https://www.jpj.co.jp/jscj/en/company/fundmanagementpolicy.html>

Management System at least once a year, and conduct the appropriate revisions in consideration of the risks to which JSCC is exposed. During this review, the Board of Directors will consider new products, the market environment, positions of Clearing Participants, changes in the Japanese and overseas regulatory environment, and other factors. The Board of Directors' review and revision process will be overseen by the Risk Management Division.

**Key Consideration 2:**

**An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.**

JSCC provides all Clearing Participants with detailed information on their positions, collateral requirements and settlement amounts, allowing Clearing Participants to reconcile and manage their market, credit, and liquidity risks. Specifically, the following measures allow Clearing Participants to calculate and manage their own risks:

- Whenever a listed product transaction is executed, the exchange disseminates the execution information, or a drop-copy, in real-time to Trading Participants and Clearing Participants;
- For Listed Derivatives, JSCC specifies the use of SPAN® margin methodology, which is widely used globally, in its rules, and distributes a daily risk parameter file (hereinafter referred to as "RPF"), for margin calculation.
- For Cash Products, JSCC has adopted a historical simulation (VaR) margin methodology. The calculation method is specified in JSCC's rules and made public, the required margin amounts are disseminated to Clearing Participants and margin simulation tools are made available for use by Clearing Participants;
- For CDS and IRS, JSCC disseminates trade information whenever a transaction is cleared. Historical simulation (expected shortfall) is used for margin calculation, and the methodology is specified in JSCC's rules and made public. JSCC disseminates the required margin amounts to Clearing Participants and also provides margin simulation tools;
- For OTC JGBs, whenever a transaction is cleared, JSCC disseminates the related information to Clearing Participants. For margin, a delta method is used, and the calculation methodology for which is specified in JSCC's rules and made public. JSCC disseminates the required margin amounts to Clearing Participants; and
- For the Clearing Fund, JSCC specifies the calculation methodologies in its rules, which are publicly available, and disseminates the required amounts to Clearing Participants.
- From viewpoint of appropriate disclosure to Clearing Participants, JSCC distributes a monthly "Risk Profile Report" for each Clearing Business, which contains key information related to risk management, including the status of collateral deposited by Clearing Participants and the status of the adequacy of loss compensation financial resources.

JSCC has established a framework for requiring additional margin, or the reduction of positions, when risks become excessive, for each of its Clearing Businesses. Clearing Participants are incentivized to pro-actively manage position risk in order to control their margin requirements. See Principle 6 (Margin) for further details.

JSCC gives Clearing Participants incentive to properly manage their positions with JSCC by requiring prefunded, or unfunded, mutualized loss compensation resources in accordance with each participant's risk exposure, for each Clearing Business. See Principle 13 (Participant-Default Rules and Procedures) for further details.

JSCC also ensures that Clearing Participants maintain the soundness and appropriateness of their business execution framework through a continuous monitoring process. When an issue arises, JSCC maintains the ability to suspend the clearing services of a Clearing Participant, after consultation with the Disciplinary Measures Assessment Committee. See Principle 18

(Access and Participation Requirements) for further details.

In addition to this, JSCC consults the advisory committees of each Clearing Business and solicits public comments when designing the risk management framework, thus offering opportunities for Clearing Participants and their customers to have effective management and controls for their risks. See Principle 2 (Governance) for further details.

**Key Consideration 3:**

**An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.**

Management of Interdependencies

JSCC monitors the risks of entities with which it has interdependencies and takes preventative measures to reduce risk.

The primary entities with which JSCC has interdependencies are Fund Settlement Banks, custodian banks, banks and JPX providing Liquidity Supply Facilities to JSCC, and the CSD. JSCC manages the settlement risk, custody risk, and liquidity risk arising from such interdependencies with these entities in accordance with the Risk Management Policy.

Specifically, JSCC monitors financial conditions of these banks and CSD to assess their credit risk and appropriately manages business processes with each. JSCC has also defined measures in its BCP for cases where business of such entities is disrupted by system malfunctions or other factors. In this way, JSCC manages the aforementioned risks with such entities. The status of risk management is reviewed on a monthly basis in a report on compliance with the Risk Management Policy, while risk management methods are reviewed annually or as necessary in the course of validation of the Risk Management Policy.

**Key Consideration 4:**

**An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.**

JSCC's Risk Management Policy defines the risk management objective as "Establish robust and comprehensive risk management frameworks, ensure steady provision of the Clearing Businesses, and prevent a loss of JSCC's capital." The Risk Management Policy also provides for measures against various risks which would disrupt the provision of vital JSCC services as a going concern. Specifically, this assumes the realization of various risks to which JSCC is exposed, mentioned in Key Consideration 1 of this Principle, as scenarios in which JSCC is unable to provide its services, such as JSCC's resources being unable to cover the loss resulting from a Clearing Participant's default, JSCC being unable to finance funds necessary for settlement, or continuous loss due to reduced revenues or increased costs for long periods.

JSCC is required to have measures in place to ensure the appropriate operation of its Clearing Businesses, by the FIEA<sup>54</sup>. For risks posed by a Clearing Participant's default, JSCC

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<sup>54</sup> FIEA Article 156-10

has prepared a Loss Compensation Scheme to fully cover the losses resulting from the default within its default management framework, and has arrangements for liquidity appropriate to the nature of the products it clears. These measures allow JSCC to avoid risk scenarios which would prevent the provision of its Clearing Businesses and services.

While there are appropriate measures in place to guard against business and other risks based on the Risk Management Policy, JSCC also has plans in place to revise business plans and reduce costs as necessary should such risks be realized. See Principle 15 (Business Risk) for further details.

In the unlikely case where JSCC finds it difficult to provide its Clearing Businesses and services, it would cooperate with regulators and related parties to resolve the situation.

## Management of Credit Risk and Liquidity Risk

### **Principle 4: Credit Risk**

***An FMI should effectively measure, monitor, and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions.***

### **Key Consideration 1:**

**An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.**

### **Credit Risk Borne by JSCC**

JSCC bears the credit risk of its Clearing Participants. Additionally, JSCC also bears credit risk of Fund Settlement Banks and custodians. JSCC has established a robust risk management framework to handle these credit risks as described below.

### **Framework to Manage Clearing Participant Credit Risk**

JSCC has in place a robust risk management framework to manage the credit risk of Clearing Participants.

- JSCC only admits entities, under supervision of the JFSA, that possess a sound management structure and financial basis and an appropriate business execution structure. JSCC requires Clearing Participants to continue to satisfy these criteria. This ensures that Clearing Participants have sufficient financial resources to fulfil their obligations to JSCC.
- In principle, JSCC requires Clearing Participants to deposit variation margin to cover current exposure and initial margin to cover potential future exposure. JSCC may also require Clearing Participants to deposit additional margin when necessary. See Principle 6 (Margin) for further details.
- JSCC actively monitors the credit exposure of Clearing Participants, at least once a day, and can take risk mitigating actions, such as requesting additional margin or position reduction, as necessary.
- In order to cover risks which cannot be covered by variation/initial margin resulting from times of market stress, JSCC requires Clearing Participants to contribute to a Clearing Fund. In addition, JSCC contributes to the financial resources for default loss from its own capital, and an appropriate part of these resources are committed ahead of the Clearing Fund contributions of Clearing Participants. The loss compensation resources, including those mentioned above, are used to meet any losses resulting from a Clearing

Participant's default, where the losses exceed the defaulting Clearing Participant's own resources. See Principle 13 (Participant-Default Rules and Procedures) for further details.

- JSCC clears Cash Products and government bonds, which are exposed to principal risk. However, this principal risk is eliminated via the use of DVP settlement. See Principle 12 (Exchange-of-Value Settlement Systems) for further details.

JSCC confirms the effectiveness of its risk management model (referring to the risk management system and risk evaluation method) by conducting an overall review at least once a year. During this review, JSCC takes into account new products, the market environment, Clearing Participant positions, Japanese and overseas regulatory developments, and other related factors.

#### Framework to Manage Credit Risks of Fund Settlement Banks and Custodians

In order to manage the credit risk of Fund Settlement Banks and custodians, JSCC performs continuous monitoring against the selection criteria, which include: being supervised by the financial regulator of Japan or their home country; possessing a framework to properly carry out operations for JSCC; and having stable financial standing.

#### **Key Consideration 2:**

**An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.**

#### Credit Risks from Clearing Participants

Credit risk from Clearing Participants arises from the possibility of one or more of them defaulting. In such case, JSCC faces credit exposure arising from price movements in the positions it has cleared for the defaulting Clearing Participant.

This credit exposure consists of both current and potential future exposure.

- JSCC measures current exposure by marking-to-market every outstanding position to the latest market price, and measures potential future exposure based on analysis of historical price movements and/or volatility index derived from actual option premiums in the market, at least once a day for all products. See Principle 6 for further details.
- JSCC measures credit exposures under extreme but plausible stressed market conditions when measuring potential future exposure. See Key Consideration 5 of this Principle for further details of the stress testing methodologies employed for each of JSCC's Clearing Businesses.

JSCC uses the following tools to manage its credit exposures:

- Daily deposit of variation margin, initial margin, and regular/ad-hoc intra-day margin. See Principle 6 (Margin) for further details;
- Pro-active monitoring of changes in Clearing Participant credit exposures due to position/price fluctuations at least once a day for all products;
- Requiring addition margin or position reduction as necessary based on the above monitoring; and
- In order to reduce the principal risk of Cash Products and JGBs, Cash Products use net/net DVP (Model 3 in CPSS's "Delivery Versus Payment in Securities Settlement Systems"(1992)), while OTC JGBs and JGB Futures use gross/gross DVP provided by BOJ (Model 1 in CPSS's "Delivery Versus Payment in Securities Settlement Systems"(1992)).

## Credit Risk from Fund Settlement Banks and Custodians

Credit risk from Fund Settlement Banks and custodians arises from the possibility of a default by such an entity. In such case, there is the risk that JSCC would not be able to conduct fund settlement with Clearing Participants or withdraw deposits held by custodians. These deposits could include Clearing Participant margin and Clearing Fund deposits and JSCC's proprietary assets.

JSCC designates the Bank of Japan ("BOJ") (Japan's Central Bank), as well as banks that satisfy its "Policies for Designation of Japanese Yen Fund Settlement Banks" and "Policies for Designation of Foreign Currency Fund Settlement Banks", as Fund Settlement Banks. Also, JSCC designates CSDs subject to PFMI, as well as the BOJ and custodians that satisfies its "Policies for Designation of Custodians of Posted Collateral", as custodians for collateral. JSCC monitors the Fund Settlement Banks' and custodians' compliance with these guidelines on a regular basis. Moreover, Japanese yen settlement funds in Fund Settlement Bank accounts and Japanese yen cash collateral, including Clearing Participant margin and Clearing Fund deposits held in custodian accounts, are maintained within the BOJ accounts or banking accounts covered by the Japanese Deposit Insurance System, which protects these funds against the default of the Fund Settlement Bank or custodian. Some deposited funds are trusted under a trust scheme. The trust assets are legally protected from the risk of the trustee's default under Japanese law.

In order to diversify its exposures as much as possible, JSCC uses multiple banks and the BOJ to conduct fund settlement and act as custodians for cash collateral. See Principle 9 (Money Settlements) and Principle 16 (Custody and Investment Risks) for further details.

### **Key Consideration 3:**

**A payment system or SSS should cover its current and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources (see Principle 5 on collateral). In the case of a DNS payment system or DNS SSS in which there is no settlement guarantee but where its participants face credit exposures arising from its payment, clearing, and settlement processes, such an FMI should maintain, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would create the largest aggregate credit exposure in the system.**

This consideration is not applicable to JSCC, as JSCC has no payment system or SSS function.

### **Key Consideration 4:**

**A CCP should cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other prefunded financial resources (see Principle 5 on collateral and Principle 6 on margin). In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. In all cases, a CCP should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of total financial resources it maintains.**

## Coverage of Current and Potential Future Exposures

Each of JSCC's Clearing Businesses covers current exposures and potential future exposures, including times of stress, to each Clearing Participant by securing additional financial resources, including variation margin, initial margin to a high confidence level, and Clearing Fund resources.

### (1) Variation Margin

For Listed Derivatives, CDS, IRS, and OTC JGB, open positions are marked-to-market using the most recent price at least once a day, following which variation margin<sup>55</sup> is exchanged with Clearing Participants in Japanese yen, with variation margin for foreign currency denominated IRS being exchanged in the respective currency. This process ensures that current exposure is covered in a timely manner. For Cash Product transactions, current exposure is covered by initial margin.

### (2) Initial Margin

Initial margin is calculated for each Clearing Business using a method appropriate for that business, with a confidence level of at least 99% for all products.

- For Cash Product transactions, current exposure and potential future exposure are both covered by initial margin. Initial margin for Cash Product transactions is calculated using the marked-to-market value of the open positions, obtained by using the most recent price, and expected loss from open positions obtained by using historical simulation (VaR) method.
- The initial margin for Listed Derivatives is calculated using SPAN®.
- For CDS and IRS transactions, historical simulations (expected shortfall) are used.
- For OTC JGB, initial margin is calculated, according to the nature of the product, to cover price fluctuation risk, settlement failure risk (including variation margin and interest payments), repo rate fluctuation risk.

JSCC has additional margin rules to respond to liquidity risk, concentration, and credit risk, according to the nature of each Clearing Business. See Principle 6 (Margin) for further details on initial margin structure.

Initial margin must be deposited in cash, or in the form of highly liquid securities (securities in lieu of cash), such as JGBs. When securities are deposited in lieu of cash, they will be marked-to-market on a daily basis, and subject to conservative haircuts to reflect potential market risks of the asset. Initial margin deposits are held in either JSCC's account at the relevant custodians, or trusted in a Japanese domestic trust bank, and are fully accessible when required. See Principle 5 (Collateral) for further details on JSCC's collateral policies

### (3) Margin Sufficiency and Validation

The variation margin mentioned above is the same amount as the current exposure and is thus ensures coverage of the current exposure on a daily basis. Initial margin, which covers potential future exposure, is backtested on a daily basis to evaluate its sufficiency. See Principle 6 (Margin) for further details.

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<sup>55</sup> The term of "variation margin" includes Mark-To-Market Margin to be paid or received according to daily mark-to-market for listed derivatives.

In the IRS Clearing Business, a Clearing Participant, Affiliate or non-Affiliated customer can select payment and receipt of mark-to-market difference according to daily fund settlement in lieu of payment and receipt of variation margin (Variation-Margin-as-Settlement). The term of "variation margin" includes this mark-to-market difference.

#### (4) Clearing Fund

JSCC requires each Clearing Participant to contribute to a Clearing Fund which covers potential future exposure in the case of the default of multiple Clearing Participants in extreme but plausible market conditions, for each Clearing Business.

For Cash Products, CDS and IRS transactions, default expectations are set to the 2 largest Clearing Participants (including any other Clearing Participant that is a Related Company<sup>56</sup> of the Clearing Participant), while expectations are set to the 1 largest Clearing Participant (including any other Clearing Participant that is a Related Company of the Clearing Participant) at minimum for other products.

The required amount for the Clearing Fund of each Clearing Business is revised on a weekly (or monthly for Cash Products transactions) basis, in accordance with the risk amount of the relevant business.

#### Other Additional Financial Resources

JSCC has other financial resources, such as its own loss bearing resources and additional contributions from Clearing Participants for each Clearing Business in addition to the Clearing Fund. For Cash Products and Listed Derivatives, these additional financial resources include loss sharing by the market operator. See Principle 13 (Participant-Default Rules and Procedures) for further details on loss compensation resources and the default waterfall.

#### Evaluation of Loss Compensation Resource Sufficiency

JSCC conducts daily stress tests for Clearing Participant positions for each of its Clearing Businesses, in order to confirm the sufficiency of the pre-funded loss compensation financial resources, and the total loss compensation resources comprised of the prefunded resources plus additional contributions from Clearing Participants. See Key Consideration 5 of this Principle for further details on stress testing.

#### Governance Arrangements

The calculation and deposit methods for additional financial resources, including margin and the Clearing Fund, are clearly provided for in the Business Rules, and subordinate rules, of each Clearing Business. To ensure sufficiency of the loss compensation resources, the Risk Management Policy provides for stress testing, and the preparation of measures to respond to any insufficiencies. Daily stress testing is performed to monitor the sufficiency of the loss compensation resources, with monthly reviews performed by the Risk Oversight Committee, and by the Board of Directors on a quarterly basis. See Principle 2 (Governance) for further details on JSCC's governance.

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<sup>56</sup> Same scope as "Affiliate" defined in PFMI (Note 39), which includes parent (*oya-gaisha*), subsidiaries (*ko-gaisha*) and associates (*kanren-gaisha*) of a Clearing Participant, as well as any subsidiaries (*ko-gaisha*) and associates (*kanren-gaisha*) of a Clearing Participant's parent (*oya-gaisha*). The same applies hereinafter.

**Key Consideration 5:**

**A CCP should determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. A CCP should have clear procedures to report the results of its stress tests to appropriate decision makers at the CCP and to use these results to evaluate the adequacy of and adjust its total financial resources. Stress tests should be performed daily using standard and predetermined parameters and assumptions. On at least a monthly basis, a CCP should perform a comprehensive and thorough analysis of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions. A CCP should perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CCP's participants increases significantly. A full validation of a CCP's risk-management model should be performed at least annually.**

Stress Testing

JSCC conducts stress testing at least daily to determine whether pre-funded loss compensation financial resources, including margin, clearing fund, and JSCC's contribution, are sufficient to cover potential losses, as well as whether the total loss compensation resources comprised of the aforementioned pre-funded resources plus additional contributions from Clearing Participants are sufficient to cover potential losses, for each of its Clearing Businesses.

JSCC's stress testing framework considers the largest historical movements in a range of stress events and extreme but plausible hypothetical scenarios. See Key Consideration 6 of this Principle for further details on the stress testing scenarios used by each of JSCC's Clearing Businesses.

The results of daily stress testing are reported to the CRO, CEO and other full-time directors, and the related division head. Additionally, stress testing results are reported as a part of the status report of compliance with the Risk Management Policy as it pertains to credit risk to the Risk Oversight Committee on a monthly basis and the Board of Directors on a quarterly and annual basis. The results are also reported monthly to Clearing Participants in the "Risk Profile Report" and annually to the advisory committees, whose members include Clearing Participants of each Clearing Business. If a problem with the sufficiency of the loss compensation resources is identified during stress testing, JSCC will take appropriate action including review and/or revision of the necessary financial resources.

Review and Validation

JSCC validates the suitability of the scenarios, models, and parameters used in stress testing of loss compensation resources on at least a monthly basis. JSCC's stress scenarios reflect recent market prices, volatility fluctuations, and positions. For market liquidity fluctuations, rules for securing resources are prepared according to necessity for each product and parameters are revised based on prevailing market conditions.

The Risk Management Division validates the overall risk management model at least annually, and makes recommendations regarding revisions to the relevant Clearing Business division, as necessary. The reporting line of the Risk Management Division is independent from the Clearing Business divisions, and reports directly to the CRO. Thus ensuring the validation process conducted by the Risk Management Division is independent from the Clearing Business divisions. The validation process verifies the effectiveness of the margin/Clearing Fund model and specifications according to the prevailing market environment, and makes recommendations regarding revisions, as necessary. The results of the validations are reported

to the Board of Directors and the advisory committees of each Clearing Business.

**Key Consideration 6:**

**In conducting stress testing, a CCP should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.**

When conducting stress testing, JSCC considers a range of conservative scenarios that are extreme, but plausible. These scenarios are suitably set in accordance with the nature of each product, taking into account relevant historical market data.

For stress scenarios used in stress testing, to confirm sufficiency of loss compensation financial resources, JSCC uses both historical scenarios and hypothetical scenarios.

JSCC uses a range of historical scenarios including stress events that caused the largest historical fluctuations in each market related to the products eligible for clearing, over the previous 30-year period, such as Black Monday (1987), the Asian Financial Crisis (1997-1998), the bankruptcy of LTCM (1998), the September 11 attacks in the U.S. (2001), the Lehman Shock (2008), the Great East Japan Earthquake (2011), and the Swiss Franc Shock (2015).

In addition, JSCC employs hypothetical (forward-looking) scenarios that are generated by models, based on the "fat-tail" feature of price movement distributions, the autocorrelation of volatility fluctuations, the simultaneous distribution of price fluctuations of many products, and principal component analysis related to interest rate term structure changes, according to the features of each product eligible for clearing.

Holding periods are defined for each product in the Business Rules and subordinate rules, as the period required for position liquidation under stressed market conditions.

The assumptions for each Clearing Business includes the default of multiple Clearing Participants, including at least the 1 largest Clearing Participant (including any other Clearing Participant that is a Related Company of the defaulter). The CDS, IRS, and OTC JGB Clearing Businesses have a tear-up framework of all Clearing Participant positions, should losses exceed the loss compensation resources. In consideration of the large potential impact of implementing the tear-up framework, the assumption for these Clearing Businesses incorporates a greater number of defaults than that used in the Clearing Fund calculation, for the evaluation of the sufficiency of the total loss compensation financial resources (including additional contribution from Clearing Participants).

**Key Consideration 7:**

**An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.**

Allocation of Credit Losses

JSCC's Business Rules clearly define the composition, calculation method, order of utilization of loss compensation resources, and the process for assessment for additional funds from Clearing Participants.

Losses which cannot be covered by a defaulting Clearing Participant's own funds would be covered by other financial resources, including the Clearing Fund of other Clearing Participants and JSCC's own resources. See Principle 13 (Participant-Default Rules and Procedures) for further details.

Replenishment of Financial Resources

In cases where the Clearing Fund of non-defaulting Clearing Participants is used for Listed Products (Cash Products and Listed Derivatives), JSCC requires that the non-defaulting Clearing Participants replenish the original amount on the following business day.

In the case of CDS, IRS, and OTC JGB, JSCC requires that the non-defaulting Clearing Participants replenish the recalculated Clearing Fund amount on the business day following the 30th day after the default. In cases where another default occurs during this period, this would be the 30th day after the second default, and so forth for successive defaults. (hereinafter referred to as "Capped Period").

To cover credit risk during the Capped Period, JSCC calculates the required Clearing Fund for each non-defaulting Clearing Participant on a daily basis. If the required Clearing Fund exceeds the required Clearing Fund for the day immediately preceding the first default, JSCC would call for deposit of the amount equal to such excess from the non-defaulting Clearing Participant ("Default Contingent Margin"). The Default Contingent Margin is a defaulter-pay type collateral to be used as financial resources to cover losses arising from the potential default of the Clearing Participant that deposited the Default Contingent Margin.

### **Principle 5: Collateral**

*An FMI that requires collateral to manage its or its participant's credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.*

#### **Key Consideration 1:**

**An FMI should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity, and market risks.**

#### **Eligible Collateral**

JSCC has a basic policy of only accepting collateral with low risk in relation to credit, liquidity, and market. The scope of eligible collateral for each Clearing Business is defined based on this basic policy.

JSCC accepts the following collateral from its Clearing Participants for Initial Margin and Clearing Fund deposits.

Principle 5 (Collateral) Key Consideration 1 IV-3 Eligible Collateral

Eligible Collateral	Cash Products	Listed Derivatives	CDS	IRS	OTC JGB
Cash (JPY)	✓	✓	✓	✓	✓
Cash (USD)	✓	✓	—	—	—
Japanese Government Bonds	✓	✓	✓	✓	✓
Bonds guaranteed by the Japanese Government (referring to Japanese yen denominated bonds stipulated in Article 2-11 of the Enforcement Ordinance of the FIEA) (*1)	✓	✓	—	—	—
Foreign Government Bonds (U.S. Treasury Bonds/Notes/Bills)	✓	✓	✓	✓	—
Foreign Government Bonds (UK, Germany, France)	✓	✓	—	—	—
Stocks (*2)	✓	✓	—	—	—
Municipal Bonds (*1)	✓	✓	—	—	—
Special Bonds (excluding bonds guaranteed by the Japanese Government) (*1, 3)	✓	✓	—	—	—
Corporate Bonds (excluding bonds with stock acquisition rights and Exchangeable Corporate Bonds) (*1, 3)	✓	✓	—	—	—
Yen-denominated bonds issued by foreign juridical persons (excluding Yen-denominated bonds stipulated in Article 2-11 of the Enforcement Ordinance of the FIEA, Convertible Bonds, and Exchangeable Corporate Bonds) (SAMURAI bonds) (*1, 3)	✓	✓	—	—	—
Beneficiary securities of public and corporate bond investment trusts	—	✓ (*5)	—	—	—
Convertible Bonds (*4)	—	✓ (*5)	—	—	—
Exchangeable Corporate Bonds (*4)	—	✓ (*5)	—	—	—
Beneficiary securities of investment trust (excluding beneficiary securities of public and corporate bond investment trusts) listed on a financial instruments exchange	✓	✓	—	—	—
Beneficiary securities of investment	—	✓ (*5)	—	—	—

trust (excluding beneficiary securities of public and corporate bond investment trusts) not listed on a financial instruments exchange					
Investment securities	✓	✓	—	—	—

(\*1) Limited to those with respect to which an underwriting contract is executed by a Financial Instruments Business Operator in connection with their issuance.

(\*2) Including stocks, preferred equity securities, foreign stock depository receipt, beneficiary securities of foreign investment trusts, foreign investment securities, beneficiary securities of beneficiary securities issuing trusts and beneficiary securities of foreign beneficiary securities issuing trusts, and limited to those listed on a financial instrument exchange in Japan.

(\*3) With respect to Special Bonds (excluding bonds guaranteed by the Japanese Government), Corporate Bonds (excluding bonds with stock acquisition rights and Exchangeable Corporate Bonds), and Yen-denominated Bonds issued by foreign juridical persons (excluding Yen-denominated bonds which are stipulated in Article 2-11 of the Enforcement Ordinance of the FIEA, Convertible Bonds, and Exchangeable Corporate Bonds), limited to those deemed appropriate by JSCC taking the issuing company's creditworthiness and other circumstances into account (e.g. all ratings obtained from Eligible Rating Agencies are A or above, etc.)

(\*4) Limited to those listed on a financial instruments exchange in Japan.

(\*5) Limited to Initial Margin for customers (excluding Affiliates) of a Clearing Participant.

JSCC confirms that collateral is eligible at the time it is deposited by Clearing Participants. As such, it is not possible for Clearing Participants to post ineligible collateral.

### Wrong-Way Risk

JSCC guards against specific wrong-way risk by not accepting securities issued by a Clearing Participant or its group affiliates as collateral.

### **Key Consideration 2:**

**An FMI should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions.**

### Collateral Valuation

JSCC values collateral deposited by Clearing Participants, on a daily basis, using market prices and haircut ratios specified in the rules. JSCC maintains the right to change a valuation price at its discretion in cases such as considerable market fluctuations, as set forth in its rules.<sup>57</sup>

### Collateral Haircuts

For bonds, conservative haircuts are adopted by ensuring that haircuts are sufficient to cover 99% of price movements under stressed market conditions, derived from the largest historical 4-day price movement over the past 10 years. In addition, for foreign government bonds, JSCC takes into account foreign exchange risk.

<sup>57</sup> Listed Products Clearing Business Rules Article 15-2, Paragraph 4, Article 16, Paragraph 5, Article 52, Paragraph 4, and Article 70, Paragraph 5  
CDS Clearing Business Rules Article 7  
IRS Clearing Business Rules Article 7  
OTC JGB Clearing Business Rules Article 70-8, Paragraph 2

For equities, collateral is valued at 70% in accordance with the application of the haircut. The suitability of this haircut is verified to ensure it covers 99% of the largest historical 4-day price movements over the past 10 years.

For cash (USD), JSCC applies a collateral haircut that is sufficient to cover 99% of the 4-day movements in the foreign exchange rate over the past 10 years.

JSCC conducts daily backtesting to validate the appropriateness of the collateral haircuts. JSCC updates collateral haircuts quarterly to reflect the latest market environment. JSCC is able to change collateral haircuts on an ad-hoc basis.

**Key Consideration 3:**

**In order to reduce the need for procyclical adjustments, an FMI should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent.**

JSCC has established conservative collateral haircuts that are calibrated to cover extreme price movements observed during periods of stressed market conditions and regularly validated. Therefore, JSCC considers the necessity for adjusting on procyclicality is kept to a minimum. See Key Consideration 2 of this Principle for details on the establishment and calibration of haircuts.

**Key Consideration 4:**

**An FMI should avoid concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects.**

Concentration Limits

JSCC imposes limits to prevent undue concentration from certain collateral assets in order to protect against adverse price movements affecting its collateral holdings. For example, equity collateral (for Cash Products and Listed Derivatives Clearing) is capped at 5%<sup>58</sup> of the issued and outstanding shares of the issuer, for each Clearing Participant. For bond collateral (for Cash Products and Listed Derivatives Clearing), the value of certain predetermined securities<sup>59</sup> shall not exceed 20% of the total amount of clearing fund and Initial Margin for Cash Products, and the Initial Margin requirement for Listed Derivatives, on the Proprietary and Affiliate accounts.

**Key Consideration 5:**

**An FMI that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner.**

The only cross-border collateral accepted for JSCC's Clearing Businesses are US dollar cash, US Treasuries, and the government bonds of UK, Germany and France, which have high market demand, high liquidity, and can be easily converted into Japanese yen.

For the Listed Derivatives Clearing Business, JSCC holds US Treasuries and the government bonds of UK, Germany and France at an overseas CSD (Euroclear Bank SA / NV) in JSCC's name. Smoother collateral transfer between JSCC and Clearing Participants would become possible by executing tri-party agreement among JSCC, the relevant Clearing Participant and CSD, if the Clearing Participant so desires. For both accounts, JSCC is recognized as the holder of such collateral. As such, JSCC is able to issue instructions regarding the liquidation of deposited foreign government bonds as necessary. US dollar cash is deposited with the Fund Settlement Bank satisfying the "Foreign Fund Settlement Banks Designation Guidelines" prescribed by JSCC at the proprietary account in the name of JSCC, and an instruction can be given, and liquidation can be processed, as necessary.

Additionally, US Treasuries deposited for the IRS and CDS Clearing Businesses are put into trust and held at a Japanese trust bank, with JSCC holding the authority under the Business Rules to issue instructions for the liquidation of them, if required.

**Key Consideration 6:**

**An FMI should use a collateral management system that is well-designed and operationally flexible.**

Collateral Management System Design

JSCC's collateral management system provides functionality for collateral eligibility checking, deposit and withdrawal processing, balance management, haircut management, and

<sup>58</sup> Equity collateral posted for the purposes listed below is capped at 2% of the issued and outstanding shares:  
- clearing fund;  
- Initial Margin for Cash Products;  
- Initial Margin for Listed Derivatives on proprietary and Affiliate's book.

<sup>59</sup> Municipal bonds, special bonds, corporate bonds and Japanese yen denominated foreign bonds.

mark-to-market valuation.

By accessing the collateral management system, Clearing Participants are able to process the deposit and withdrawal of collateral and re-allocation of collateral deposited with JSCC.

Clearing Participants are able to access a collateral management system which provides real-time collateral information, such as types of eligible collateral assets, deposit balance and market price.

The collateral management systems used for each Clearing Business allow the deposit and withdrawal of collateral at any time during the operational hours specified in JSCC's Business Rules and operational procedures. It can restrict the deposit of ineligible collateral.

The collateral management system evaluates collateral daily and sets the scope for eligible assets by acquiring market data each day from external source (listed exchanges for equities, the Japan Securities Dealers Association ("JSDA") for JGB OTC trades, and key information vendors<sup>60</sup>) and applying haircuts. Revisions to haircuts can be implemented in a timely manner via overnight batch processing.

In relation to re-using collateral, JGB collateral for initial margin deposited by Clearing Participants in relation to the OTC JGB Clearing Business may be re-hypothecated with the BOJ for seamless operation of JGB DVP settlement.

As most of the primary operations in the collateral management system, including deposit, withdrawal, and valuation are conducted via STP, operations in times of market stress (a high volume of collateral-related transactions), no additional resources are required to ensure seamless operations.

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<sup>60</sup> The JSDA publishes daily market prices for OTC JGB trades based on quotes submitted by financial institutions.

## **Principle 6: Margin**

***A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.***

### **Key Consideration 1:**

**A CCP should have a margin system that establishes margin levels commensurate with the risks and particular attributes of each product, portfolio, and market it serves.**

### Margin Framework

JSCC clears the following products and uses different margin frameworks for each, depending on the nature of each product:

- Listed Cash Products
- Listed Derivatives (Futures and Options)
- CDS
- IRS
- OTC JGB

JSCC requires variation margin and initial margin to be deposited by all Clearing Participants, according to the nature of the products in each Clearing Business. For derivatives transactions, JSCC also requires the deposit of variation margin and initial margin from customers. Variation margin, which covers current exposure, and initial margin, which covers potential future exposure, are to provide coverage for the depositor's own potential losses, and the required amount of each is determined according to positions and market fluctuations.

Additionally, market liquidity is a factor when determining the required amount of margin for some products. The margin calculation methods for each Clearing Business are defined in JSCC's Business Rules and subordinate rules. (See Key Consideration 3 of this Principle for an overview.)

### Provision of Information to Clearing Participants

For Cash Products, JSCC prescribes in its rules, and publishes, the margin requirement calculation methodology, distributes margin requirement information, and provides a margin simulation system.

For Listed Derivatives, JSCC prescribes in its rules the margin calculation method that uses the SPAN® methodology, and Clearing Participants can calculate their required margin using RPF provided by JSCC. In addition, by using the RPF provided by JSCC, Clearing Participants can perform margin simulations. (The RPF includes issues and parameters that will be applicable from the next business day, for the purpose of margin simulation.)

For IRS and CDS, JSCC prescribes in its rules, and publishes, the margin requirement calculation methodology, distributes margin requirement information, and provides margin simulation functionality. Clearing Participants may perform "what-if" margin simulations for their entire cleared portfolio, plus additional theoretical trades.

For OTC JGB, JSCC prescribes in its rules, and publishes, the margin requirement calculation methodology and distributes the margin requirement information.

### Deposit and Withdrawal of Margin

JSCC calculates the required amount of variation margin and initial margin at least once

daily at the close of business each day using the most recent market prices for each product, with deposits and payments occurring on either the date of calculation or the following business day.

For Listed Derivatives and IRS, Clearing Participants are required to deposit margin twice a day. Moreover, for each Clearing Business, Clearing Participants are required to deposit margin on an ad hoc basis in the event of a large price fluctuation. This margin framework ensures margin requirements are calculated based on recent market prices.

Additionally, when accepting new IRS transactions from Clearing Participants, JSCC requires the pre-funding of variation margin and initial margin required to cover the entire portfolio, including both the new transaction (if a new transaction is a part of a Package Trade<sup>61</sup>, then all new transactions under the relevant Package Trade) and cleared transactions, before clearing the new transaction. New trades which fail to fulfill this requirement are rejected.

In the case of transactions from customers outside of Japan, considering the difference of time zones, JSCC permits customers to deposit initial margin with a Clearing Participant by the business day following that on which the Clearing Participant deposited initial margin for such customer transactions with JSCC.<sup>62</sup>

**Key Consideration 2:**

**A CCP should have a reliable source of timely price data for its margin system. A CCP should also have procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable.**

JSCC uses reliable price data in its margin calculations. JSCC's primary sources of price information are as follows, all of which use prices that reflect market conditions in a timely manner.

- Listed products: JSCC calculates margin using trade prices on the relevant exchanges, or prevailing market prices, such as final quotes or theoretical prices.
- CDS: Price quotes are provided by Clearing Participants. JSCC establishes prices based on the average of the quotes, having excluded the outliers. JSCC subjects Clearing Participants who submit outliers to the payment of additional Clearing Fees or mandatory trade execution based on the submitted quote in order to maintain the quality of submitted prices.
- IRS: Price quotes are provided by Clearing Participants. For highly liquid interest rate product, additional quotes are provided by third party inter-dealer brokers. JSCC establishes prices based on the average of the quotes, excluding the outliers. JSCC subjects Clearing Participants who submit outliers to the payment of additional Clearing Fees, thus maintaining the quality of prices submitted.
- OTC JGB: Prices are acquired by JSCC from the JSDA, which publicizes prevailing market prices of OTC JGBs based on quotes submitted by market participants, which are financial institutions participating in OTC JGB transactions.

For products which only rely on quotes, JSCC has procedures in place to ensure the accuracy of the price data, including averaging quotes with outliers excluded and applying penalties, such as additional Clearing Fees, to Clearing Participants that submit outliers.

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<sup>61</sup> JSCC's "Package Trade" functionality allows Clearing Participants to apply for clearing multiple Eligible IRS Transactions in bulk (Article 2.(4)-2 of Handling Procedures of Interest Rate Swap Business Rules).

<sup>62</sup> IRS Clearing Business Rules Chapter 6  
CDS Clearing Business Rules Chapter 6

Additionally, when handling new products that rely on quotes, prior to launch, JSCC confirms that Clearing Participants are able to submit reliable quotes.

Should it not be possible to acquire the latest market prices, the latest available price will be used for margin calculations. Overall validation of the margin model is conducted at least once a year by the Risk Management Division, independent from each Clearing Business. See Principle 6, Key Consideration 7 for details of model validation.

**Key Consideration 3:**

A CCP should adopt initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. Initial margin should meet an established single-tailed confidence level of at least 99 percent with respect to the estimated distribution of future exposure. For a CCP that calculates margin at the portfolio level, this requirement applies to each portfolio's distribution of future exposure. For a CCP that calculates margin at more-granular levels, such as at the subportfolio level or by product, the requirement must be met for the corresponding distributions of future exposure. The model should (a) use a conservative estimate of the time horizons for the effective hedging or close out of the particular types of products cleared by the CCP (including in stressed market conditions), (b) have an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products, and (c) to the extent practicable and prudent, limit the need for destabilising, procyclical changes.

Margin Model

JSCC sets initial margin to cover potential future exposure under regular market conditions, primarily using the positions and market fluctuations for each product to determine required amounts. As such, JSCC's model seeks to cover regular price movements at a confidence level of 99%, or more for some products. The relevant holding period for each product, as prescribed in the Business Rules and their subordinate rules, is the period required to complete the liquidation of a defaulter's positions.

Additionally, JSCC may impose a Liquidity Charge, which takes account of market liquidity and position concentration according to the nature of each product.

JSCC also has prepared a framework to prevent procyclical changes in required initial margin amounts, by including stress scenarios in some of the margin calculations and setting a conservative floor for the required margin amount. The approach used may vary according to the nature of each product. However, when amending a margin model, JSCC ensures that a framework that mitigates procyclicality is applied.

Margin Calculation Method

## (1) Listed Products: Cash Products

JSCC calculates the required initial margin amount for Cash Products by using the methodology outlined in 1) below, and when the aggregate risk amount of a Clearing Participant is considered excessive, JSCC will increase the required initial margin amount using the methodology outlined in 2) below.

## 1) Required Initial Margin

JSCC calculates the daily required initial margin amount for Cash Products based on the following:

- Mark-to-market value of each open position evaluated using the latest price; Separate payment/deposit of variation margin is not conducted for Cash Products, with an equivalent amount included in the initial margin calculations.
- Expected losses from open positions obtained by using a historical simulation (VaR) methodology based on the price fluctuation of unsettled open positions; Under the historical simulation (VaR) methodology JSCC employs for calibrating expected losses

from open positions, the daily price movement is obtained, for each issue, by using scenarios generated during a predetermined period in the past, and the expected loss is set as the value to cover a certain confidence level. The parameters used for the calculation are a 250-days reference period, 99% confidence level, and a 1-day holding period.

## 2) Initial Margin Requirement Add-ons

JSCC has a rule in place to increase the required initial margin amount for Clearing Participants in accordance with risks associated with each Clearing Participant's open positions. If the expected loss of a Clearing Participant under stressed market conditions cannot be covered by the Clearing Participant's pre-funded financial resources, for Cash Product transactions, then JSCC will increase the required initial margin amount for the Clearing Participant in advance.

### (2) Listed Products: Listed Derivatives

#### 1) Initial Margin Requirement

JSCC determines the required amount of initial margin for Listed Derivatives<sup>63</sup> by applying the net option value to the amount calculated using Chicago Mercantile Exchange's ("CME") SPAN® methodology.

SPAN® methodology calculates the risk arising from a portfolio of futures and options on the Clearing Participant's house account and each client's account according to a sensitivity analysis, with consideration given to the nonlinear risk of option contracts. SPAN® margin calculation requires the definition of a Price Scan Range and a Volatility Scan Range, as well as a range of other parameters, including Intra-Commodity and Inter-Commodity correlations.

In order to reflect recent price fluctuations in a timely manner, JSCC employs a parameter determination method factoring in volatility index calculated from the option premium (1-day holding period, 99% confidence level), for the Price Scan Range. For products which do not involve options, a parameter determination method referencing historical price fluctuations is used (1-day holding period, reference period of 54 weeks, 99% confidence level).

For the Volatility Scan Range, which represents volatility fluctuations, JSCC uses a parameter determination method referencing past volatility fluctuations (1-day holding period, reference period of 54 weeks, 99% confidence level).

## 2) Initial Margin Increase

For Listed Derivatives, when the potential risk amount in the event of default of a Clearing Participant (including any other Clearing Participant that is a Related Company of the defaulting Clearing Participant), under stressed market conditions, exceeds the Clearing Participant's pre-funded financial resources plus its client margin<sup>64</sup>), JSCC can increase the initial margin requirement for the relevant Clearing Participant to ensure such excess risk amount in collateralized.

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<sup>63</sup> In principle, JSCC uses the SPAN® methodology for Initial Margin, but it employs a unique calculation method for add-on charges in the Initial Margin Requirement Add-on Charge Scheme.

<sup>64</sup> For clarification, inclusion of client margin in Clearing Participant's pre-funded financial resources is solely for the purpose of calculating the increased amount of the initial margin requirement. This should not be relevant to JSCC's arrangements for the customer protection against a fellow customer risk. (For the details of the risk management against fellow customer risk, please see Principle 14 (Segregation and portability).)

Upon default of a Clearing Participant holding extremely large positions relative to other Clearing Participants, more time would be required for liquidation. In this scenario, the normal initial margin requirement may not be sufficient to cover any resulting losses. Therefore, JSCC charges an initial margin requirement add-on to any Clearing Participant, or client, holding large positions (Initial Margin Requirement Add-on Charge Scheme). Specifically, JSCC analyzes the house and client positions held by each Clearing Participant to decide if the add-on needs to be charged, according to liquidity and concentration criteria. When it is judged that the add-on is required, then the larger of the excess loss amounts calculated according to these criteria, is applied as the add-on charge.

Additionally, for JGB Futures contracts, in order to cover credit risk from the final positions of a Clearing Participant in the settlement by physical delivery and payment, JSCC separately requires a deposit of initial margin from Clearing Participants during the period from the last trading day of each contract month, to the day before the date of the settlement by physical delivery and payment. JSCC calculates this required initial margin amount as the sum total of the expected loss for each issue, based on the price movement of each JGB issue subject to the physical delivery and payment (120-day reference period, 99% confidence level).

### (3) CDS

JSCC calculates initial margin for CDS transactions by applying a variety of additional charges in reflection of the nature of CDS transactions to the Initial Margin Base Amount obtained via historical simulation (expected shortfall) methodology. These include a charge to cover the risk of the reference entity experiencing a credit event.

#### 1) Initial Margin Base Amount

The Initial Margin Base Amount is calculated according to a historical simulation (expected shortfall) methodology, in order to cover the risk from price fluctuations. Specifically, it is set to cover a certain level of NPV fluctuation determined using daily prices during a certain historical period for the CDS positions on the date of calculation. Calculation parameters include a reference period of 750 days, a confidence level of the average of the worst 1%, and a holding period of 5 days. In addition to data during the reference period, a stress scenario is included with double the regular holding period (10 days) for the largest historical fluctuation. These considerations take into account the tendency for CDS to experience sudden price fluctuations.

#### 2) Short Charge and Bid/Ask Charge

The Short Charge is calculated to cover “jump-to-default” risk. Specifically, JSCC calculates net positions for each reference entity and obtains the Short Charge by multiplying the notional amount of the largest net short position by 0.18.

The Bid/Ask Charge is calculated to cover liquidity risk arising when liquidating positions following a Clearing Participant default. Specifically, JSCC calculates net positions for each issue and obtains the Bid/Ask Charge by multiplying the sensitivity of the net position by the bid/ask spread which JSCC sets based on the prevailing market condition.

#### 3) Credit Event Margin and Single Name Margin

Credit Event Margin is added to initial margin to cover the risk arising from a reference entity which has experienced a credit event. Specifically, JSCC calculates the net short positions of trades referencing such reference entity, and obtains Credit Event Margin by multiplying the net positions by a ratio, applicable to the reference entity, which is prescribed by JSCC in consideration of market conditions.

Single Name Margin is added to initial margin to cover the risk of a reference entity that is a component of an Index CDS experiencing a restructuring credit event, if the settlement of the Single Name CDS has not yet occurred. Specifically, JSCC calculates net positions of transactions referencing such reference entity. For net short positions, JSCC obtains the Single Name Margin by multiplying the net position by a ratio, applicable to the reference entity, which is prescribed by JSCC dependent on market conditions. For net long positions, JSCC obtains the Single Name Margin by taking the present value of future cash flows for trades referencing the reference entity.

JSCC also applies a concentration charge to cover the risk of certain Clearing Participants with concentrated CDS positions. Specifically, JSCC increases the required initial margin of Clearing Participants which hold positions in excess of a level set based on market size. This measure acts to discourage Clearing Participants from taking excessive positions relative to the market size.

#### (4) IRS

JSCC calculates the required amount of initial margin for IRS transactions using historical simulation (expected shortfall) methodology, and adding the amount determined in consideration of the liquidity risk of IRS transactions.

##### 1) Initial Margin

The required amount of initial margin is calculated using historical simulation (expected shortfall) methodology to cover risks from interest rate fluctuations. Specifically, it is set to cover a certain amount of an NPV fluctuation calculated using a daily yield curve fluctuation scenario for a given historical period.

Parameters used in the calculation include a reference period of 1,250 days, a confidence level of the average of the worst 1%, and a holding period of 5 days (7 days for customer transactions). In addition to the data from the reference period, data from the significant historical interest rate fluctuations are also used as stress scenarios. This is to prevent sudden changes in required initial margin when stress events are applied to or removed from the interest rate fluctuations during the reference period.

Additionally, JSCC has methodologies in place (Volatility Scaling methodology based in Exponentially Weighted Moving Average method) to revise the historical interest rate fluctuation scenarios, based on the latest interest rate environment in order to reflect current interest rate environment promptly.

JSCC provides a cross margining service, enabling the risk offset between JPY-denominated IRS and JGB Futures, to Clearing Participants, Affiliates and non-Affiliated customers of the IRS Clearing Business, for whom the Notification of Using Cross Margining has been submitted to JSCC (hereinafter referred to as "Cross Margining User"). JSCC calculates the required initial margin for them by using the same historical simulation (expected shortfall) methodology as the IRS Clearing Business.

##### 2) Liquidity Charge

Liquidity Charge is calculated to cover market liquidity risk arising from the liquidation of a defaulting Clearing Participant's positions. When the PV01 of positions for major tenor buckets of IRS transactions exceeds a certain level, a Liquidity Charge is imposed. This charge is calculated by multiplying the excess by an ask/bid spread derived from a market survey of Clearing Participants.

### 3) Holiday Margin

The settlement of variation margin and other cash settlements for foreign currency denominated IRS is difficult on a non-business day in the home jurisdiction of the relevant currency. However, the latest market movements in the relevant currency need to be properly captured in JSCC's risk management framework. Therefore, JSCC adjusts the Clearing Participant's required initial margin by an amount equivalent to the variation margin and other cash settlements, in the relevant currency.

When a market in the home jurisdiction of the relevant currency is open on a JSCC non-business day, JSCC increases the required initial margin for the relevant Clearing Participant on the day immediately preceding JSCC's non-business day, in order to cover expected interest rate and foreign exchange market risk.

### (5) OTC JGB

JSCC requires initial margin for OTC JGBs to cover the risk of price fluctuations calculated using the delta method, with a variety of additional charges to take account of the specific nature of OTC JGBs.

#### 1) Initial Margin

For OTC JGBs, initial margin is referred to as POMA (Post Offset Margin Amount). POMA is calculated using a delta method and based on historical price fluctuations during a given period, taking into account the correlations between issues. Parameters used in calculations include a reference period of 250 days, a confidence level of 99%, and a holding period of 3 days. Additionally, in order to reflect changes in positions due to intraday DVP settlement, Adjusted POMA is calculated according to the same method at the completion of intraday settlement.

In order to reflect large historical fluctuations in the market and positions, Average POMA is calculated by averaging a certain ratio of the top POMA for a given historical period. Though correlations between issues are used in POMA calculations, a minimum amount is set as a certain ratio of the risk before offsetting to prevent excessive offsetting. The greatest of POMA, Adjusted POMA, Average POMA, and the minimum amount is used to determine the initial margin required to cover actual market price fluctuations.

#### 2) Other Charges

Charges added to initial margin include (a) initial margin to cover FOS (Fund Only Settlement) failure risk, (b) initial margin to cover repo rate fluctuation risk, and (c) market impact charge.

Initial margin to cover FOS failure risk is calculated to cover the loss arising from failure of Fund Only Settlement, including the payment/receipt of variation margin or JGB coupon, due to the default of a Clearing Participant. It is calculated by averaging a certain ratio of the top settlement amounts during a certain historical period.

Initial margin to cover repo rate fluctuation risk is calculated to cover the repo cost arising from executing repo transactions in the liquidation of the positions of a Clearing Participant which has defaulted. It is calculated by multiplying the repo trade amount needed to reconstruct the OTC JGB positions by the repo rate spread expected by JSCC. As with the initial margin calculation, the greatest of the risk amount, the average of a certain ratio of the top risk amounts for a given historical period, and the minimum amount are used.

The market impact charge is calculated to cover the market liquidity risk arising from the liquidation of a defaulted Clearing Participant's positions. Specifically, a bid/ask spread is determined based on a market survey of Clearing Participants for each JGB type, maturity, and terms to maturity. The relevant bid/ask spread is then multiplied by the position's interest rate

sensitivity.

**Key Consideration 4:**

**A CCP should mark participant positions to market and collect margin at least daily to limit the build-up of current exposures. A CCP should have the authority and operational capacity to make intraday margin calls and payments, both scheduled and unscheduled, to participants.**

JSCC has adopted variation margin frameworks which aim to reduce current exposure for each of its Clearing Businesses. Variation margin is paid/received once per day. When calculating variation margin, positions are marked-to-market using the most recent market prices, and the difference between the prior valuation and the latest mark-to-market is paid/received.

For Listed Derivatives, JSCC recalculates margin requirements during the morning by using the most recent market prices, and may issue intraday margin calls if required, to cover any intraday shortfall on the same day. Moreover, a framework is in place to handle large price fluctuations, where additional intraday (afternoon) calculations are made using the most recent market prices, and JSCC may issue intraday margin calls, if required, to cover any intraday shortfall on the same day.

For IRS, JSCC recalculates the margin requirements at noon based on the most recent positions of each Clearing Participant, and may issue intraday margin calls, if required, to cover any intraday shortfall on the same day. Moreover, a framework is also in place to handle large price fluctuations, under which additional margin calculations are made, and JSCC may issue additional intraday margin calls, if required.

For Cash Products, OTC JGB and CDS, a framework is in place to handle large price fluctuations, where additional intraday margin calculations are made using the most recent market prices, and JSCC may issue intraday margin calls, if required, to cover any intraday shortfall on the same day. For intraday margin calculations, the most recent market prices during the day are used for Cash Products and CDS, but for OTC JGB, as intraday market prices are difficult to acquire, JSCC applies a predetermined ratio to the required margin calculation based on positions at the previous day's close of business.

**Key Consideration 5:**

**In calculating margin requirements, a CCP may allow offsets or reductions in required margin across products that it clears or between products that it and another CCP clear, if the risk of one product is significantly and reliably correlated with the risk of the other product. Where two or more CCPs are authorised to offer cross-margining, they must have appropriate safeguards and harmonized overall risk-management systems.**

Portfolio margining

JSCC calculates the required amount of initial margin for each type of transaction for each proprietary and customer account of Clearing Participants based on the portfolio of positions belonging to each account.

For Cash Products, JSCC calculates initial margin by applying a historical simulation (VaR) methodology, to take account of correlations between the price movements of different issues.

When calculating initial margin for Listed Derivatives (futures/options), JSCC uses the SPAN® methodology. Within that, JSCC allows margin offsetting for positions in the same product but different contract months based on price fluctuation correlations, as well as margin offsetting between products with high correlation.

For CDS transactions, JSCC calculates initial margin by applying a historical simulation (expected shortfall) methodology, to take account of price fluctuation correlation for positions in different reference entities and different terms to maturity.

For IRS transactions, JSCC calculates initial margin by applying a historical simulation (expected shortfall) methodology, to take account of interest rate fluctuation correlation for positions in different rate types and tenors. JSCC has introduced a cross margining mechanism for initial margin, which enables risk offset between JPY-denominated IRS and JGB Futures. For a Cross Margining User, the required initial margin is calculated, for both JPY-denominated IRS and JGB Futures, by using the same historical simulation (expected shortfall) methodology as the IRS Clearing Business.

For OTC JGBs, JSCC calculates margin using offset ratios based on price fluctuation correlation for positions in issues with different terms to maturity.

#### Cross-margining

JSCC does not offer cross-margining arrangements with any other CCPs.

Among eligible products for JSCC's clearing, JSCC conducts cross margining across multiple types of products. As both products exhibit similar risk characteristics (i.e., interest rate risk), JSCC provides an optional cross margining service to Clearing Participants and their customers that enables the offsetting of initial margin between JPY-denominated IRS and JGB Futures.

#### Robustness of Margin Model

JSCC conducts daily backtesting to verify the robustness of its margin model.

Parameters used to calculate required margin are regularly revised, with additional revisions made for times of market stress.

Additionally, correlation parameters used in margin calculations for Listed Derivatives and OTC JGBs are reviewed on a weekly basis. JSCC also updates historical data on price fluctuations for margin calculation of Cash Product transactions, CDS and IRS transactions using a historical simulation method, on a daily basis. As such, correlated fluctuations are reflected in margin calculations in a timely manner.

#### **Key Consideration 6:**

**A CCP should analyse and monitor its model performance and overall margin coverage by conducting rigorous daily backtesting – and at least monthly, and more-frequent where appropriate, sensitivity analysis. A CCP should regularly conduct an assessment of the theoretical and empirical properties of its margin model for all products it clears. In conducting sensitivity analysis of the model's coverage, a CCP should take into account a wide range of parameters and assumptions that reflect possible market conditions, including the most-volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices.**

#### Backtesting

JSCC performs daily backtesting, comparing the margin requirement for each account and the actual losses arising from positions in the account, on a daily basis, and using statistical analysis to confirm that the target confidence level prescribed in the Risk Management Policy is achieved.

If the target confidence level has not been achieved, JSCC will analyze the cause, and examine appropriate measures, such as revisions to the margin model or parameters, as needed.

JSCC reports backtesting results to the Risk Oversight Committee on a monthly basis, to the Board of Directors on a quarterly basis, and to Clearing Participants via the advisory committees of each Clearing Business on an annual basis.

**Key Consideration 7: A CCP should regularly review and validate its margin system.**

The Risk Management Division, which is independent from Clearing Business divisions, reviews and validates its overall margining models at least annually. Within these reviews, JSCC evaluates the policies and calculation methods of the risk management framework, including margining, and validates their sufficiency and propriety based on backtesting and stress testing results. JSCC adds or revises margin models, as necessary, when implementing new products. The addition or revision of any margin models is subject to validation by the Risk Management Division.

The results of the overall review and validation of the margin model are presented annually to the Board of Directors and to Clearing Participants via the advisory committees of each Clearing Business.

## **Principle 7: Liquidity Risk**

***An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.***

### **Key Consideration 1:**

**An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities.**

The primary potential source of liquidity risk is the default of a Clearing Participant. When a Clearing Participant defaults, JSCC will first use cash deposited as collateral by the defaulting Clearing Participant and cash withheld from payments to the defaulting Clearing Participant to perform fund settlement. In preparation for cases where these funds are insufficient, in addition to its proprietary assets, JSCC has secured yen-denominated and foreign currency denominated Liquidity Supply Facilities from multiple commercial banks that have been designated as Fund Settlement Banks.

Each of JSCC's Fund Settlement Banks is also a Clearing Participant, and thus plays multiple roles in relation to JSCC. However, in order to ensure the supply of liquidity even in the case of a Fund Settlement Bank's default, JSCC has secured Liquidity Supply Facilities from multiple Fund Settlement Banks.

Moreover, in addition to Liquidity Supply Facilities from the Fund Settlement Banks, JSCC has secured its own funds and Liquidity Supply Facilities from its parent company, JPX, to secure liquidity supply from a diverse range of entities.

In addition to this, because a large amount of liquidity is expected to be required if an OTC JGB Clearing Participant defaults, due to the large settlement amount associated with the settlement of notional amount, JSCC has established a framework to procure liquidity via JGB repo transactions with Clearing Participants and other financial institutions.

Furthermore, for Listed Products (Cash Products and Listed Derivatives), JSCC has a framework in place that allows for the temporary use of the Japanese yen cash<sup>65</sup> portion of the clearing fund deposited by non-defaulting Clearing Participants, following settlement failure by a Clearing Participant.

### **Key Consideration 2:**

**An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.**

In the fund settlement for each of its Clearing Businesses, JSCC has established a framework whereby payments from JSCC are made to receiving Clearing Participants after funds are received by JSCC from paying Clearing Participants. As such, there is no need to

<sup>65</sup> Limited to the amount of the clearing fund of which deposit in Japanese yen cash is required.

procure intraday liquidity for fund settlement, except in the event of a paying Clearing Participant default. Therefore, JSCC continuously monitors the status of payments from paying Clearing Participants.

Additionally, JSCC regularly receives information on Clearing Participant cash flow. If, for example, the expected amount of funds needed for daily fund settlement by a Clearing Participant exceeds either that Clearing Participant's fund settlement capability or the largest historical levels of fund settlement, JSCC will contact that Clearing Participant to discuss the situation.

**Key Consideration 3:**

**A payment system or SSS, including one employing a DNS mechanism, should maintain sufficient liquid resources in all relevant currencies to effect same-day settlement, and where appropriate intraday or multiday settlement, of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions.**

This consideration is not applicable to JSCC, as JSCC does not provide any payment system or SSS functionality.

**Key Consideration 4:**

**A CCP should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments, and meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should consider maintaining additional liquidity resources sufficient to cover a wider range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would generate the largest aggregate payment obligation to the CCP in extreme, but plausible market conditions.**

JSCC has secured Liquidity Supply Facilities from multiple Fund Settlement Banks, for Japanese yen and each applicable currency other than Japanese yen designated as the settlement currency for foreign currency denominated IRS, and from its parent, JPX, for Japanese yen, to ensure fund settlement.

For Listed Products (Cash Products and Listed Derivatives), JSCC has a framework in place that allows for the temporary use of the Japanese yen cash<sup>66</sup> portion of the clearing fund deposited by a non-defaulting Clearing Participants, following settlement failure by a Clearing Participant.

JSCC conducts daily stress tests to confirm the sufficiency of its liquidity resources, for all settlement currencies.

JSCC has established a framework for procuring liquidity via repo transactions with Clearing Participants or non-Participant financial institutions for OTC JGBs and is not dependent on Liquidity Supply Facilities. As such, the stress testing of the sufficiency of Liquidity Supply Facilities applies for all products, except OTC JGBs. See Key Consideration 9 of this Principle for liquidity stress testing for OTC JGBs.

In stress testing, JSCC calculates and totals, per stress scenario, the stress risk arising from each transaction subject to clearing. JSCC calculates stress risk based on extreme but plausible price fluctuations, such as the largest observed historical price fluctuation for each market.

A large amount of cash equity transactions are executed to liquidate arbitrage transactions on the day following the final trading date of each contract month ("SQ Date") of index

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<sup>66</sup> Limited to the amount of the clearing fund of which deposit in Japanese yen cash is required.

futures/options. This results in a significant increase in the liquidity requirement. To account for this, JSCC uses the largest historical fund settlement payment, including SQ Dates, in the stress risk amount.

The number of simultaneous defaults used in the stress risk calculations is 2 Clearing Participants for CDS transactions (including any other Clearing Participant that is an Affiliate of a defaulting Clearing Participant), due to the complexity of “jump-to-default” risk, and 1 Clearing Participant for all other Clearing Businesses (including any other Clearing Participant that is an Affiliate of the defaulting Clearing Participant).

Additionally, JSCC monitors the stress risk amount using coverage of the 2 largest Clearing Participants (including any other Clearing Participant that is an Affiliate of a defaulting Clearing Participant) among all of Clearing Businesses, in order to promptly identify the emergence of liquidity risk.

These stress risk calculations assume the largest loss in simultaneous stress scenarios occurring in separate Clearing Businesses. However, since it is unlikely that the individual scenarios assumed for each Clearing Business would be realized simultaneously, JSCC also calculates stress risk based on stress scenarios which cover across all Clearing Businesses (excluding OTC JGBs).

In addition to scenarios based on historical data, JSCC also calculates stress risk based on hypothetical forward-looking scenarios and conducts reverse stress tests to cover a wider range of cases and allow for more varied analysis.

**Key Consideration 5:**

**For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transaction with) the relevant central bank. All such resources should be available when needed.**

JSCC has prepared the following qualifying liquid resources to meet its liquidity needs:

- Cash deposited by a defaulting Clearing Participant as margin or Clearing Fund;
- Liquidity Supply Facilities;
- JSCC's proprietary assets; and
- Japanese yen cash deposited by non-defaulting Clearing Participants for Listed Products (Cash Products and Listed Derivatives).

In addition to the above, JSCC has established a liquidity framework via JGB repo transactions with Clearing Participants and other financial institutions, for OTC JGBs.

Moreover, JSCC is able to use cash collateral deposited as margin and Clearing Fund by a defaulting Clearing Participant on the day when it becomes necessary.

Liquidity Supply Facilities are provided by commercial banks which have been designated as Fund Settlement Banks and JSCC's parent company, JPX. Pursuant to agreements with each Fund Settlement Bank and JPX, funds should be made available on the date of application, if the application is made prior to a pre-agreed cut-off time.

JGB repo transactions, which are utilized to meet any funding needs in the OTC JGB Clearing Business, are highly liquid and JSCC expects it can procure the necessary funds on an intraday basis.

When the need arises for JSCC to procure liquidity in times of stress, JSCC expects that it is able to procure the required amount using these qualifying liquid resources.

**Key Consideration 6:**

**An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as part of its liquidity plan.**

As in Key Consideration 5 of this Principle, JSCC expects that it is able to procure the required amount of liquidity using qualifying liquid resources. When necessary, JSCC is also able to supplementarily use liquid resources secured by JSCC besides its own assets set aside as qualifying liquid resources.

**Key Consideration 7:**

**An FMI should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider.**

### Liquid Resources

JSCC's qualifying liquid resources are composed of cash deposited as margin or Clearing Fund by a defaulting Clearing Participant, Liquidity Supply Facilities and JSCC's proprietary assets. Additionally, JSCC has established a liquidity framework via JGB repo transactions with Clearing Participants and other financial institutions for OTC JGBs. Furthermore, for Listed Products (Cash Products and Listed Derivatives), JSCC has a framework in place that allows for the temporary use of the Japanese yen cash<sup>67</sup> portion of the clearing fund deposited by non-defaulting Clearing Participants, following settlement failure by a Clearing Participant.

### Reliability of Liquidity Providers

JSCC diversifies its liquidity sources by receiving Liquidity Supply Facilities from 6 Fund Settlement Banks for Japanese yen and 2 Fund Settlement Banks for other currencies. The

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<sup>67</sup> Limited to the amount of the clearing fund of which deposit in Japanese yen cash is required.

concentration status of liquidity provider resources is monitored on a monthly basis. Moreover, to further diversify its liquidity suppliers, JSCC has obtained a yen-denominated Liquidity Supply Facilities from its parent company, JPX.

JSCC considers the Liquidity Supply Facilities from each Fund Settlement Bank and JPX are sufficient for performing its commitment in proportion to the Fund Settlement Bank's and JPX's balance sheet. During the 2008 Financial Crisis, JSCC was able to access Liquidity Supply Facilities without issue.

All of the Japanese yen Fund Settlement Banks operate under the supervision of the JFSA and are currently eligible counterparties in a BOJ's fund provision operation. All of the Fund Settlement Banks which are the liquidity supply providers for other currencies operate under the supervision of the JFSA or financial regulators in the countries of their establishment. Moreover, JPX, which is JPY-denominated liquidity supplier, is subject to financial requirements under the FIEA as a Financial Instruments Exchange, and operates under the supervision of the JFSA. JSCC continuously monitors the financial soundness of these banks by receiving regular reports on their financial status.

JSCC has established a liquidity framework via JGB repo transactions with Clearing Participants and other financial institutions for OTC JGBs. This framework assumes that, when procuring liquidity from the market is difficult, Clearing Participants will access the supplementary lending of the BOJ, which uses JGBs as collateral, ensuring its effectiveness.

For Listed Products (Cash Products and Listed Derivatives), if it is difficult to facilitate the settlement by utilising funding from the Liquidity Supply Facilities and JSCC's own funds, JSCC may temporarily use the Japanese yen cash<sup>68</sup> portion of the clearing fund deposited by non-defaulting Clearing Participants. To ensure effectiveness of this framework, JSCC requires that Clearing Participants deposit a predetermined portion of the clearing fund requirement in Japanese yen cash.

JSCC confirms the effectiveness of its access to the liquid resources of liquidity providers in default settlement fire drills that are conducted at least annually.

**Key Consideration 8:**

**An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.**

JSCC utilizes an account at the BOJ for the settlement of funds for each of its Clearing Businesses, to the extent possible. Specifically, all Japanese Yen fund settlements for the CDS, IRS, and OTC JGB Clearing Businesses are conducted through a BOJ account.

For the IRS Clearing Business, funds to be settled in other currencies, in relation to foreign currency denominated IRS, are settled through accounts of commercial banks.

For the Listed Products (Cash Products and Listed Derivatives) Clearing Business, because of the diverse composition of Clearing Participants, accounts at both the BOJ and commercial banks are used, based on each Clearing Participant's needs.

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<sup>68</sup> Limited to the amount of the clearing fund of which deposit in Japanese yen cash is required.

**Key Consideration 9:**

**An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk-management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressure in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.**

Stress Testing of Liquidity

JSCC conducts stress testing for Japanese Yen that is a settlement currency for all Clearing Businesses, as well as other settlement currencies related to foreign currency denominated IRS, at least once a day, to verify that Liquidity Supply Facilities and JSCC's proprietary assets are sufficient for potential liquidity needs.

JSCC's stress testing framework includes a range of scenarios including the largest historical price fluctuations and extreme but plausible hypothetical scenarios.

The results of daily stress tests are reported to the CRO, the President and CEO and other executive directors, and the heads of related divisions. Additionally, as part of compliance with the Risk Management Policy in relation to liquidity risk, reports are made to the Risk Oversight Committee on a monthly basis, and to the Board of Directors on a quarterly and annual basis. If a problem with Liquidity Supply Facilities is identified as a result of stress testing, JSCC will examine a necessary measure, including revisions to the framework.

The liquidity framework via JGB repo transactions for OTC JGBs utilizes Clearing Participants and is based upon an assumption that, when procuring liquidity from the market is difficult, Clearing Participants will access the supplementary lending of the BOJ. As haircuts are applied to JGBs when Clearing Participants access the supplementary lending of the BOJ, Clearing Participants may also select repo transactions with JSCC with haircuts applied. At such times, because Clearing Participant initial margin covers the equivalent haircut, JSCC confirms daily that it can cover equivalent haircuts with initial margin deposits, under stressed market conditions, even in the case where all Clearing Participants select repo transactions with haircuts applied.

The results of this confirmation are reported via the same framework as the stress tests of Liquidity Supply Facilities, above.

Stress scenario

JSCC conducts stress tests according to various extreme but plausible scenarios. The scenarios are conservative and reference related historical market data.

For stress scenarios used to confirm the sufficiency of the liquid resources, JSCC uses historical scenarios as a base, and establishes other appropriate scenarios based on the nature of the products involved.

JSCC uses a range of historical scenarios including stress events that caused the largest fluctuations in each market relevant to the eligible products for clearing, over the previous 30-year period, such as Black Monday (1987), the Asian Financial Crisis (1997-1998), LTCM's bankruptcy (1998), the September 11th attacks in the U.S. (2001), the Financial Crisis (the Lehman collapse) (2008), the Great East Japan Earthquake (2011), and the Swiss Franc Shock (2015).

In addition, JSCC employs hypothetical (forward-looking) stress scenarios that are generated by models, based on the "fat-tail" feature of price fluctuation distributions, the autocorrelation of volatility, the simultaneous distribution of price fluctuations of many products, and principal component analysis related to interest rate term structure changes, according to the features of each product eligible for clearing.

Moreover, in the stress testing to confirm sufficiency of the liquidity resources, JSCC uses cross-product scenarios where forward-looking hypothetical stress scenarios are defined in light of the correlations between products.

JSCC assumes the default of the largest Clearing Participant (including any other Clearing Participant that is a Related Company of the defaulting Clearing Participant) for each of its Clearing Businesses, except for CDS, where it assumes the simultaneous default of the largest 2 Clearing Participants (including any other Clearing Participant that is a Related Company of the defaulting Clearing Participants) due to the complexity of the product.

#### Review and Validation of Stress Scenarios

JSCC validates the scenarios, models, and parameters used in stress testing of Liquidity Supply Facilities at least monthly. JSCC ensures that stress scenarios reflect the most recent market prices and positions.

The Risk Management Division the overall risk management model, including Liquidity Supply Facilities, on at least an annual basis, and makes recommendations regarding revisions to be considered. The results of these validations are reported to the Board of Directors.

#### **Key Consideration 10:**

**An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event so that it can continue to operate in a safe and sound manner.**

JSCC has comprehensive rules<sup>69</sup> concerning a change of settlement cut-off times and deferment of settlement. Under these rules, however, settlement cut-off times cannot be changed nor can settlement be deferred, even in the default of one or more Clearing Participant. JSCC assumes that settlement will be conducted according to the times prescribed

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<sup>69</sup> Listed Products Clearing Business Rules Article 80  
CDS Clearing Business Rules Article 113  
IRS Clearing Business Rules Article 113  
OTC JGB Clearing Business Rules Article 91

in its rules. This is supported by sufficient and timely access to Liquid Supply Facilities and liquidity via JGB repo transactions.

## Settlement

### **Principle 8: Settlement Finality**

*An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.*

#### **Key Consideration 1:**

**An FMI's rules and procedures should clearly define the point at which settlement is final.**

#### Point of Settlement Finality

JSCC conducts settlement via 2 methods: securities settlement and fund settlement. For both methods, the point of settlement finality is when the transfer has been made from the Clearing Participant's account with a CSD or Fund Settlement Bank. For fund settlement in a currency other than Japanese yen, the point of settlement finality is when either the intrabank transfer has been made from the Clearing Participant's account at the Fund Settlement Bank, or the credit to JSCC's account is made in the settlement process between different Fund Settlement Banks.

#### Fulfillment of Obligations pertaining to Settlement

Settlement methods between JSCC and Clearing Participants are specified in JSCC's Business Rules, and obligations are fulfilled at the point where settlement has been conducted according to the Business Rules.

#### Legal Certainty of Finality

JSCC specifies in its Operational Procedures that securities settlement or fund settlement are irrevocable after the completion of the book-entry transfer. The Operational Procedures prescribe procedures to be observed by Clearing Participants based on JSCC's Business Rules, and are legally binding on Clearing Participants. This ensures the legal certainty for settlement finality.

#### **Key Consideration 2:**

**An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS or SSS should consider adopting RTGS or multiple-batch processing during the settlement day.**

The processes and operations of each of JSCC's Clearing Businesses are designed to provide for final settlement no later than the end of the value date or on the day the receipt/payment is due by specifying the settlement date and settlement cut-off time therein.

JSCC has never experienced an incident where the final settlement is deferred past the scheduled settlement date.

Settlement is made on a real-time basis during the day. The settlement is final when JSCC's payment instructions have been carried out in a Clearing Participant's Fund Settlement Bank or CSD. Clearing Participants can confirm fulfillment of final settlement via JSCC's clearing system or a CSD's system as necessary.

**Key Consideration 3:**

**An FMI should clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.**

JSCC has Operational Procedures in place for each Clearing Business. The Operational Procedures prescribe operational procedures for Clearing Participants based on JSCC's Business Rules, and the point when transfer instructions become irrevocable.

Settlement instructions to JSCC may not be revoked after completion.

Provisions and authority regarding revocation of transfer instructions prior to the completion of a transfer are prescribed in the rules and procedures of each CSD.

## **Principle 9: Money Settlements**

***An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.***

### **Key Consideration 1:**

**An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.**

For Listed Products (Cash Products and Listed Derivatives), CDS and OTC JGB Clearing Businesses, JSCC only uses Japanese Yen for settlement. For IRS Clearing Business, in addition to Japanese yen, JSCC uses currencies for the settlement of foreign currency denominated IRS.

For each of its Clearing Businesses, JSCC uses an account with the BOJ, the central bank, whenever possible. Specifically, all JPY settlements for the CDS, IRS, and OTC JGB Clearing Businesses are conducted through a BOJ account.

For the IRS Clearing Business, fund settlement in non-JPY currencies are performed through an account of a commercial bank. JSCC designated two commercial banks as Fund Settlement Banks for fund settlements in foreign currencies, and Clearing Participants may select to perform fund settlement through an account at either of those Fund Settlement Banks.

For the Listed Products (Cash Products and Listed Derivatives) Clearing Business, due to the diversity of Clearing Participants, settlement is possible through either a BOJ account or an account at one of six commercial banks designated by JSCC as Fund Settlement Banks for fund settlement in Japanese yen, based on the choice of each Clearing Participant.

For Japanese yen fund settlement, JSCC holds a settlement account in its own name at the six aforementioned Fund Settlement Banks and BOJ. Settlement between each Clearing Participant and JSCC is conducted via book-entry transfer between the accounts of the Clearing Participant and JSCC, at the bank designated by the Clearing Participant. This book-entry transfer is conducted between accounts at the same bank, either with BOJ or any of the Fund Settlement Banks, and is not performed between different banks.

For settlement in currencies other than Japanese yen, JSCC holds a settlement account in the two above-mentioned Fund Settlement Banks, and fund settlement between a Clearing Participant and JSCC is conducted via account transfer between the Clearing Participant's account and JSCC's account, at the bank selected by the Clearing Participant.

### **Key Consideration 2:**

**If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk.**

JSCC only designates commercial banks which satisfy its "Policies for Designation of Japanese Yen Fund Settlement Banks" and "Policies for Designation of Foreign Currency Fund Settlement Banks" as Fund Settlement Banks. Fund Settlement Banks approved by JSCC are those with a presence in Japan, with sufficient capitalization and high credit. Furthermore, all Fund Settlement Banks are subject to supervision by the JFSA and monitoring by BOJ, or supervision by financial regulators at the countries of their establishment.

**Key Consideration 3:**

**If an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalisation, access to liquidity, and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks.**

In order to eliminate settlement risk arising from credit risk, accompanying the use of commercial bank money, to the extent possible, JSCC designates Fund Settlement Banks according to the “Policies for Designation of Japanese Yen Fund Settlement Banks” and “Policies for Designation of Foreign Currency Fund Settlement Banks,” as mentioned in Key Consideration 2 of this Principle, selecting commercial banks with sufficient capitalization and high credit.

Within the “Policies for Designation of Japanese Yen Fund Settlement Banks” and “Policies for Designation of Foreign Currency Fund Settlement Banks,” JSCC requires banks to be subject to the supervision of a regulator, maintain stable business operations and profitability, and have sufficient capitalization and high credit above a predetermined level.

JSCC confirms the soundness of Fund Settlement Bank finances by receiving regular reports from each commercial bank designated as a Fund Settlement Bank on their financial conditions and confirming their daily settlement operations run smoothly. In this way, JSCC continuously monitors the banks’ compliance with the “Policies for Designation of Japanese Yen Fund Settlement Banks” and “Policies for Designation of Foreign Currency Fund Settlement Banks.”

Furthermore, by designating the BOJ and six Fund Settlement Banks for Japanese yen and two Fund Settlement Banks for currencies other than Japanese yen, JSCC has distributed the risk of being unable to conduct settlement operations due to a Fund Settlement Bank’s bankruptcy. JSCC also monitors the status of concentration of settlement across the Fund Settlement Banks on a monthly basis.

All accounts held by JSCC at Fund Settlement Banks are covered by the Japanese Deposit Insurance System, thereby limiting credit risk arising from the commercial banks.

**Key Consideration 4:**

**If an FMI conducts money settlements on its own books, it should minimise and strictly control its credit and liquidity risks.**

JSCC conducts all money settlements through Fund Settlement Banks and BOJ. No money settlement is conducted on its own books.

**Key Consideration 5:**

**An FMI’s legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks.**

Central Bank Money Settlement

For settlement at the central bank, BOJ’s “Rules on Current Deposit Account” Article 5,

Paragraph 3 states that “instruction of fund transfer shall be irrevocable.” Therefore, such transfers are final upon completion of the transfer process in the BOJ Financial Network System (“BOJ-NET”).

#### Commercial Bank Money Settlement

For settlement using Fund Settlement Banks, transfers between JSCC and Clearing Participants are conducted by wire-transfer. The agreements between JSCC and Fund Settlement Banks specify the time at which funds shall be transferred to the relevant JSCC account for Japanese yen fund settlement. For fund settlement in foreign currencies, Clearing Participants are required to send fund transfer instructions to the Fund Settlement Bank in time so the transfer instructions will arrive by the remittance instruction receipt cutoff time designated by JSCC.

This is the established approach for fund settlement in the Japanese financial market, which JSCC views as a safe and robust settlement system.

Settlement is considered to be final and irrevocable once the funds are credited to the receiver’s bank account. JSCC understands that these arrangements are supported by Japanese laws and regulations.

## **Principle 10: Physical Deliveries**

***An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.***

### **Key Consideration 1:**

**An FMI's rules should clearly state its obligations with respect to the delivery of physical instruments or commodities.**

JSCC conducts most of the securities settlement via the book-entry transfer system of the CSD. Currently, the only product subject to physical delivery between JSCC and Clearing Participants are Investment Securities issued by the BOJ.

JSCC's Business Rules prescribe that Investment Securities issued by the BOJ are to be physically delivered between a Clearing Participant and JSCC and specify the settlement cut-off time for such to fulfill delivery obligations.<sup>70</sup>

JSCC's Business Rules are publicly available through its website.

In addition to the Business Rules, JSCC provides Clearing Participants with the "Operational Procedures for Non-DVP Settlement," which prescribe detailed operational procedures related to physical delivery. This facilitates Clearing Participants to conduct operations with a full understanding of the physical delivery process.

### **Key Consideration 2:**

**An FMI should identify, monitor, and manage the risks and costs associated with the storage and delivery of physical instruments or commodities.**

#### Storage/Delivery Risk related to Physical Instruments

JSCC views (1) principal risk, (2) risk of theft/destruction, and (3) forgery risk to be the primary risks associated with storage/delivery of physical securities (securities certificates). Measures for these risks are outlined below.

#### Measures for Principal Risk

The aforementioned "Operational Procedures for Non-DVP Settlement" prescribe that receiving participants must pay settlement funds to JSCC prior to receiving securities from JSCC, and that delivering participants must deliver securities to JSCC before receiving payment from JSCC. Through this process, JSCC eliminates the principal risk associated with physical delivery.

#### Risk of Theft/Destruction

The process for receipt and delivery of securities from the delivering participant to JSCC and from JSCC to the receiving participant is completed on the same day. As such, the period that JSCC holds the securities is extremely short and the risk of theft/destruction is limited. Securities received are locked in a fireproof safe to reduce the risk of theft and destruction.

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<sup>70</sup> Listed Products Clearing Business Rules Articles 47, 48, and 56

### Forgery Risk

In order to reduce the risk of forgeries, JSCC confirms the authenticity of the certificates at the time of transfer and records the serial number of transferred certificates to enable tracking.

## CSDs and Exchange-of-Value Settlement Systems

### **Principle 11: Central Securities Depositories**

*A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risk associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilized or dematerialized form for their transfer by book entry.*

Because JSCC is not a central securities depository, this principle does not apply.

## **Principle 12: Exchange-of-Value Settlement Systems**

*If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transaction), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.*

### **Key Consideration 1:**

**An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs.**

### Use of DVP Settlement

JSCC uses a DVP settlement framework which links the delivery of securities with payment for the settlement of listed cash securities (excluding Investment Securities issued by the BOJ), listed JGBs, and OTC JGBs, between JSCC and Clearing Participants. This framework eliminates principal risk associated with the settlement of cash securities.

#### (1) DVP Settlement of Listed Cash Securities (Net-Net)

JSCC uses Net-Net DVP settlement for listed cash securities (Model 3 in CPSS's "Delivery Versus Payment in Securities Settlement System"). Under this scheme, the value of securities JSCC delivers to a Clearing Participant is limited to the value of funds and securities received by JSCC from such Clearing Participant. This prevents JSCC from fulfilling obligations to the Clearing Participant in excess of that which the Clearing Participant fulfills toward JSCC, thereby eliminating the principal risk of a Clearing Participant default.

Transfer of funds and securities according to this scheme is conducted between the accounts of a Clearing Participant and JSCC, with such transfers being final at the point they are executed. (Please see Principle 8 (Settlement Finality).) Additionally, when delivery of securities to a Clearing Participant is withheld, such securities are held within JSCC's account until delivery in order to protect them from third-party claims, such as the creditors of the Clearing Participant.

#### (2) DVP Settlement of JGBs (Gross-Gross)

For settlement of listed JGBs and OTC JGBs, JSCC uses the Gross-Gross (Model 1 in CPSS's "Delivery Versus Payment in Securities Settlement System" (1992)) DVP settlement (RTGS (Real-Time Gross Settlement)) provided by BOJ, in its role as the CSD for JGBs, as a BOJ participant. Under this scheme, settlement of cash and securities between a Clearing Participant and JSCC is fulfilled simultaneously on a gross basis and is final at the time of transfer. (Please see Principle 8 (Settlement Finality).)

## Default Procedures

### **Principle 13: Participant-Default Rules and Procedures**

*An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.*

#### **Key Consideration 1:**

**An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following default.**

#### Clearing Participant Default

JSCC's rules set out the details of the default management procedures, including the events constituting a default, the sequencing of the process and obligations of parties involved. JSCC will declare that a Clearing Participant is in default if such participant is, or is likely to be, unable to perform its obligations, according to the determination of JSCC's senior management. If a default is declared, JSCC can take actions to contain losses by halting clearing of new transactions from the defaulter and liquidating the defaulter's positions.

JSCC's methods for disposing of positions vary according to the nature of the product for each Clearing Business. Specifically, offsetting transactions in the market and an auction involving non-defaulting Clearing Participants (when necessary) is used for Listed Products, and an auction involving non-defaulting Clearing Participants is used for CDS, IRS, and OTC JGBs. In addition, for Listed Products, CDS and IRS, hedge transactions can be promptly executed for the defaulter's portfolio to minimise the risk of losses prior to the disposal of the defaulter's positions. Hedge transactions for CDS and IRS are executed based on the advice of the related Clearing Business's advisory committee (CDS Default Management Committee, IRS Default Management Committee). If a defaulting Clearing Participant holds positions in foreign currency denominated IRS, the default management process, including hedge transactions, will be conducted for each currency.

When disposing of positions, customer positions and collateral related to Listed Derivatives, CDS, and IRS transactions are able to be transferred to non-defaulting Clearing Participants. JSCC does not receive deposits of customer collateral for listed Cash Products. Moreover, for OTC JGBs, currently no Clearing Participant has a non-Affiliated customer. JSCC uses its loss compensation financial resources according to its rules to cover losses arising in the default process.

Even when a Clearing Participant default occurs, JSCC will fulfill settlement according to the regular schedule. In order to fulfill settlement in this manner, JSCC maintains Liquidity Supply Facilities for procuring necessary liquidity. For Listed Products (Cash Products and Listed Derivatives), JSCC has a framework in place that allows for the temporary use of the Japanese yen cash portion of the clearing fund deposited by non-defaulting Clearing Participants, to facilitate fund settlement. Additionally, JSCC has established a framework for liquidity via JGB repo transactions with Clearing Participants for OTC JGBs. See Principle 7 (Liquidity Risk) for further details.

## Composition of Loss Compensation Financial Resources

JSCC has established a loss compensation framework for each Clearing Business. This prevents losses from a single Clearing Business impacting the others.

Below is an overview of the loss compensation financial resources for each Clearing Business.

### (1) Listed Products Loss Compensation

For the Listed Product (Cash Products and Listed Derivatives) Clearing Business, losses resulting from a Clearing Participant default will be covered in the following order:

- 1) The defaulting Clearing Participant's margin, Clearing Fund, and other collateral deposited for its proprietary book (including collateral deposited for other Clearing Businesses, if any remains)  
\*See Principle 6 (Margin) for margin and Principle 4 (Credit Risk) for Clearing Fund.
- 2) Contribution from the relevant market operator
  - The market operators of the listed products which JSCC clears (exchange/PTS) contributes funds to cover losses arising from such products according to an agreement with JSCC.
- 3) Contribution from JSCC
- 4) Clearing Fund contributions from non-defaulting Clearing Participants
  - Non-defaulting Clearing Participants Clearing Fund contributions are consumed on a pro rata basis according to the risk amount of each participant.
  - When an auction is held to dispose of a defaulting Clearing Participant's positions, the clearing fund of the Clearing Participant that wins the default auction is used after the clearing fund of other Clearing Participants.
  - If a loss consumes all or part of the Clearing Fund contributions from a non-defaulting Clearing Participant, such contribution shall be replenished by the business day following such consumption.
- 5) Additional contribution from non-defaulting Clearing Participants
  - If the loss resulting from a Clearing Participant default exceeds the sum of all the preceding financial resources, the non-defaulting Clearing Participants are required to cover any remaining losses by an additional contribution called a "Special Clearing Charge." The Special Clearing Charge is calculated separately for Securities Clearing Qualification, JGB Futures Clearing Qualification, and Index Futures Clearing Qualification, and the total amount is distributed on a pro rata basis among Clearing Participants holding such qualifications, based on their relevant clearing fund requirements.

### (2) CDS/IRS Loss Compensation

For the CDS and IRS Clearing Businesses, losses resulting from a Clearing Participant default in each Clearing Business will be covered in the following order:

- 1) The defaulting Clearing Participant's margin, and Clearing Fund (including collateral deposited for other Clearing Businesses, if any remains)  
\*See Principle 6 (Margin) for margin and Principle 4 (Credit Risk) for Clearing Fund.
- 2) Contribution from JSCC

- JSCC contributes funds in this second tier, and the third tier (below).
- 3) Clearing Fund contributions from non-defaulting Clearing Participants and an additional contribution from JSCC
- Clearing Fund contributions from non-defaulting Clearing Participants and JSCC's additional contribution are consumed on a pro rata basis.
  - Clearing Fund contributions from non-defaulting Clearing Participants are consumed according to the risk amount of each participant.
  - The Clearing Fund contributions from non-defaulting Clearing Participants are capped at a certain level. For further defaults occurring during the Capped Period, such contributions are capped at the required Clearing Fund amount immediately preceding the initial default.
  - The amount of Clearing Fund contribution from non-defaulting Clearing Participants consumed is determined according to the quality of participation in the auction for disposing of the defaulter's positions. The Clearing Fund contributions of Clearing Participants with a lower level of auction participation will be consumed first.
  - If a loss consumes all or part of the Clearing Fund contributions from the non-defaulting Clearing Participants, then contributions shall be replenished following the end of the Capped Period. To cover credit risk during the Capped Period, JSCC calculates the required Clearing Fund for each non-defaulting Clearing Participant on a daily basis. If the required Clearing Fund exceeds the required Clearing Fund for the day immediately preceding the first default, JSCC will call for the additional amount as Default Contingent Margin. The Default Contingent Margin is a defaulter-pay type collateral to be used as financial resources to cover losses arising from the potential default of the Clearing Participant that deposited the Default Contingent Margin.
- 4) Additional contribution from non-defaulting Clearing Participants
- If the loss resulting from a Clearing Participant default exceeds the sum of all the preceding financial resources, an additional contribution called a "Special Clearing Charge" is required from the non-defaulting Clearing Participants. The Special Clearing Charge for defaults occurring during a Capped Period is capped at the required amount of Clearing Fund immediately preceding the first default.
  - The Special Clearing Charge shall be applied according to quality of participation the auction for disposing of the defaulter's positions. The charge will be first applied to Clearing Participants with lower level of auction participation.
- 5) Variation Margin Haircutting
- If the loss resulting from a Clearing Participant default exceeds the sum of all the preceding financial resources, all non-defaulting Clearing Participants with positive variation margin (variation margin receiver) from the default date are required to compensate the loss through Variation Margin Haircutting, to a maximum of the relevant variation margin amount.

If a defaulting Clearing Participant holds positions in foreign currency denominated IRS, the loss compensation financial resources are allocated for each currency. The allocated loss compensation financial resources are applied in the order mentioned above, for each currency. If there is any surplus in the loss compensation financial resources allocated to each currency, the surplus will be re-allocated to other currencies.

If a defaulting Clearing Participant is using cross margining, the gain/loss from cross margined JGB Futures are covered by the loss compensation financial resources under the IRS Clearing Business. However, if a loss remains after the application of the loss compensation financial resources up to Tier 4, any remaining loss shall be allocated to IRS and JGB Futures according to the final loss from the position in JPY-denominated IRS and the position in cross margined JGB Futures. After such allocation, any loss related to JPY-

denominated IRS will be covered by Tier 5, with losses related to the position in JGB Futures being covered according to the Listed Products Loss Compensation, described in (1) above.

### (3) OTC JGB Loss Compensation

For the OTC JGB Clearing Business, losses resulting from a Clearing Participant default will be covered by loss compensation financial resources in the following order:

- 1) The defaulting Clearing Participant's margin, and Clearing Fund (including collateral deposited for other Clearing Businesses, if any remains)
  - \*See Principle 6 (Margin) for margin and Principle 4 (Credit Risk) for Clearing Fund.
- 2) Contribution from JSCC
  - JSCC contributes funds in this second tier, and the third and fifth tiers (below).
- 3) Clearing Fund contributions from non-defaulting Clearing Participants and an additional contribution from JSCC
  - The losses allocated to non-defaulting Clearing Participants and JSCC will be pro-rated based on their proportion of the total level of combined resources in this tier.
  - The Clearing Fund contributions of non-defaulting Clearing Participants will be allocated according to losses ("Trust Losses") based on transactions ("Trust Transactions") pertaining to trusts where the Clearing Participant is the trust bank, and other losses ("Non-Trust Losses"). The allotment of Trust Losses will be made based on the ratio of the defaulter's positions made up by Trust Transactions on an underlying transaction basis. The remaining losses after the allocation of Trust Losses shall be the Non-Trust Losses. The Trust Losses and Non-Trust Losses will be allocated to non-defaulting Clearing Participants according to the following method:
    - Trust Losses shall be allocated to each relevant non-defaulting Clearing Participant pro-rata, based on their ratio of underlying transactions with the defaulting Clearing Participant.
    - Non-Trust Losses shall be allocated to each relevant non-defaulting Clearing Participant pro-rata, based on their Clearing Fund contribution.
  - The amount of loss borne by non-defaulting Clearing Participants' Clearing Fund contributions under this third tier is capped. Specifically, for defaults during the Capped Period, the cap shall be the required amount of Clearing Fund immediately preceding the first default. However, the amount of loss allocated to the Clearing Fund contributions related to Trust Losses under the third tier is capped at the amount allocated to each Trust Bank according to the underlying transactions. If any Clearing Fund contribution in respect of Trust Losses under this third tier remains unused, non-defaulting Clearing Participants holding Trust Transactions are required to contribute the unused amount in the fifth tier (below).
  - The amount of Clearing Fund contribution from non-defaulting Clearing Participants consumed is determined according to the quality of participation in the auction for disposing of the defaulter's positions. The Clearing Fund contributions of Clearing Participants with a lower level of auction participation will be consumed first.
  - If a loss consumes all or part of the Clearing Fund contributions from the non-defaulting Clearing Participants, then contributions shall be replenished following the end of the Capped Period. To cover credit risk during the Capped Period, JSCC calculates the required Clearing Fund for each non-defaulting Clearing Participant on a daily basis. If the required Clearing Fund exceeds the required Clearing Fund for the day immediately preceding the first default, JSCC will call for the additional amount as Default Contingent Margin. The Default Contingent Margin is a defaulter-pay type collateral to be used as financial resources to cover losses arising from the default of the Clearing Participant that deposited that Default Contingent Margin.

- 4) Additional contribution from non-defaulting Clearing Participants
  - In cases where the losses allocated as Trust Losses and Non-Trust Losses exceed the compensation resources of non-defaulting Clearing Participants in the third tier (above), JSCC will charge an additional contribution called a “Special Clearing Charge” to the relevant non-defaulting Clearing Participants, to cover any remaining losses. The “Special Clearing Charge” will be allocated pro-rata to each non-defaulting Clearing Participant, according to the following method to cover any remaining losses after consumption of the third tier financial resources (above):
    - The “Special Clearing Charge” for Trust Losses shall be allocated to each relevant non-defaulting Clearing Participant based on their ratio of underlying transactions with the defaulting Clearing Participant.
    - The “Special Clearing Charge” for non-Trust Losses shall be allocated to each relevant non-defaulting Clearing Participant based on their required amount of Clearing Fund. Contributions from each non-defaulting Clearing Participant will be capped at their clearing fund requirement immediately preceding the first default during the Capped Period.
  - If, in respect of Trust Losses, the “Special Clearing Charge” contribution under this fourth tier is less than the required Clearing Fund, further contributions of “Special Clearing Charge” up to the difference of the required Clearing Fund and the amount used in this fourth tier will be required in the sixth tier (below).
- 5) Clearing Fund contributions from non-defaulting Clearing Participants with Trust Transactions and an additional contribution from JSCC
  - The losses borne by the Clearing Fund contribution of non-defaulting Clearing Participants with Trust Transactions and the contribution of JSCC will be pro-rated based on their proportion of the total level of combined resources in this tier.
  - The losses borne by the Clearing Fund contribution of non-defaulting Clearing Participants with Trust Transactions shall be allocated pro-rata, based on the ratio of each Clearing Participant’s remaining Clearing Fund contribution after use in the third tier (above).
  - The sum total of the losses borne by the Clearing Fund contribution of non-defaulting Clearing Participants with Trust Transactions under the third tier (above) and this fifth tier is capped. For defaults during the Capped Period, the cap shall be the required amount of Clearing Fund immediately preceding the first default.
  - The amount of Clearing Fund contribution from non-defaulting Clearing Participants with Trust Transactions consumed is determined according to the quality of participation in the auction for disposing of the defaulter’s positions. The Clearing Fund contributions of Clearing Participants with a lower level of auction participation will be consumed first.
- 6) Additional contribution from non-defaulting Clearing Participants with Trust Transactions
  - In cases where the losses resulting from the Clearing Participants default exceed the compensation resources up to the fifth tier (above), JSCC will charge an additional contribution called a “Special Clearing Charge” to non-defaulting Clearing Participants with Trust Transactions.
  - The “Special Clearing Charge” shall be allocated to non-defaulting Clearing Participants with Trust Transactions pro-rata, based on their ratio of “Special Clearing Charge” remaining after use under the fourth tier (above). In such cases, the sum total of the “Special Clearing Charge” under the fourth tier (above) and this sixth tier allocated to each non-defaulting Clearing Participant shall be capped at the required amount of Clearing Fund immediately preceding the first default during the Capped Period.
- 7) Additional Loss Recovery
  - If the loss resulting from a Clearing Participant default exceeds the sum of all the preceding financial resources, all non-defaulting Clearing Participants with positive variation margin (variation margin receiver) from the default date are required to

additionally compensate the loss, to a maximum of the relevant positive variation margin amount.

**Key Consideration 2:**

**An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.**

JSCC provides for default procedures in its rules and manuals. These rules and manuals specify procedures including determination of default, liquidation of the defaulting Clearing Participant's positions, loss compensation resources, and measures for such procedures.

These procedures also provide for information sharing related to the default, including communications with regulators, notices to Clearing Participants, and public announcement of information. The procedures also specify the role and responsibility of each of JSCC's divisions and involvement of officers.

Additionally for the CDS, IRS, and OTC JGB Clearing Businesses, JSCC has established a framework requiring the participation of non-defaulting Clearing Participants in the liquidation of the defaulting Clearing Participant's positions. Roles and responsibilities of non-defaulting Clearing Participants in default procedures are set out in JSCC's rules.

In order to ensure the effectiveness of default procedures, JSCC conducts fire-drills at least once a year. Based on the results, JSCC will revise rules and manuals as necessary. Some of JSCC's Clearing Businesses require Clearing Participant involvement in default procedures, including fire drills, where JSCC provides the results as feedback.

**Key Consideration 3:**

**An FMI should publicly disclose key aspects of its default rules and procedures.**

JSCC's default procedures are provided for in the rules for each of JSCC's Clearing Businesses. These rules are available on JSCC's website.

When a Clearing Participant defaults, JSCC discloses important information pertaining to the default procedures including the halt of clearing for the defaulting Clearing Participant, position liquidation method, handling of customer positions, and results of allocation of any losses arising from the Clearing Participant's default.

**Key Consideration 4:**

**An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.**

In order to ensure the effectiveness of default procedures, JSCC conducts fire-drills for each Clearing Business at least once a year. All related parties, including Clearing Participants, participate in these fire-drills. Based on the results, JSCC will revise rules and manuals as necessary.

Additionally, JSCC will revise rules and manuals related to default when there have been significant revisions to business operations. The results of fire-drills are reported to the Risk Oversight Committee and the Board of Directors.

## **Principle 14: Segregation and Portability**

***A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.***

### **Key Consideration 1:**

**A CCP should, at a minimum, have segregation and portability arrangements that effectively protect a participant's customers' positions and related collateral from the default or insolvency of that participant. If the CCP additionally offers protection of such customer positions and collateral against the concurrent default of the participant and a fellow customer, the CCP should take steps to ensure that such protection is effective.**

### **Segregated Management of Customer Positions and Margin**

For each Clearing Business, JSCC has adopted differing segregation arrangements for customer protection.

For CDS and IRS transactions, JSCC segregates Clearing Participant's proprietary positions/margin and the positions/margin of each Customer. Specifically, the positions/margin of each customer is segregated in individual customer accounts with JSCC at all times, regardless of whether or not the customer is an Affiliate of the Clearing Participant. JSCC has established this framework to protect margin related to the positions of each customer from the default or insolvency of a Clearing Participant.

For Listed Derivatives in the Listed Products Clearing Business, JSCC manages customer positions/margin separately from each Clearing Participant's proprietary account, either on a gross basis in an omnibus account, or separately in individual customer accounts, as elected by each Clearing Participant.

When a Clearing Participant elects for management in an omnibus client account, the positions/margin of multiple customers are managed in a single omnibus account at the JSCC, but the positions/margin of each customer are separately managed by the Clearing Participant. In such cases, the Clearing Participant reports the position details of each customer to JSCC, on a daily basis, and JSCC calculates the margin requirement for each customer based on this information. When a Clearing Participant elects for management in an individual client account, the positions/margin for each individual client is managed separately in each individual client account at JSCC.

For both omnibus client accounts and individual client accounts, a Clearing Participant may elect the management method at JSCC for each customer of a customer (hereinafter referred to as "Indirect Customer"). If the customers of a Clearing Participant includes an Affiliate of the Clearing Participant, then the Clearing Participant is required to segregate at JSCC, the positions/margin of the Affiliate from the positions/margin of non-Affiliated customers.

In addition, for the Listed Derivatives in the Listed Product Clearing Business, JSCC has the authority to request that Clearing Participants submit the positions/margin information of individual customers if required<sup>71</sup>. Through these frameworks, JSCC protects customer positions and related margin from the default or insolvency of a Clearing Participant. See the following "Transfer of Positions/Margin" section for further details.

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<sup>71</sup> Rules on Margins, etc. for Futures and Option Contracts Article 26.

For the OTC JGB Clearing Business, Clearing Participant's proprietary positions/margin, and the positions/margin of each customer, are managed on a gross basis. The positions/margin of each customer are segregated in individual customer accounts at JSCC, at all times, regardless of whether or not the customer is an Affiliate of the Clearing Participant. In terms of customer protection arrangements, the FIEA requires each Clearing Participant to conduct the segregated management of customer securities and cash.

For listed Cash Products, JSCC would conduct netting for all of a defaulting Clearing Participant's transactions. JSCC only receives collateral deposits from Clearing Participants, but not from customers. In such cases, the FIEA requires each Clearing Participant to conduct the segregated management of customer securities and cash. Also, the protection of a customers' securities and cash related to open positions is achieved under alternative schemes in Japan. Specifically, the Japan Investor Protection Fund, established according to the FIEA, provides a customer protection scheme for small-scale customers of the Financial Instruments Business Operators (*kinnyushohin-torihiki-gyosha*). In addition, JASDEC DVP Clearing Corporation provides DVP Settlement Services for NETDs (non-exchange transaction deliveries) for large-scale (professional) customers. These schemes provide a means of eliminating principal risk.

#### Transfer of Positions/Margin

JSCC has adopted position transfer arrangements for customer protection, in accordance with the nature of the products it clears.

For clearing of Listed Derivatives, CDS, and IRS, when a Clearing Participant defaults, customers may transfer their own positions and margin to another Clearing Participant without the consent of the defaulting Clearing Participant. In such case, agreement is necessary from the Clearing Participant receiving the transfer of positions/margin.

For Listed Derivatives, the Clearing Participant receiving the transfer is required to express its consent to the exchange and to follow the exchange's prescribed procedures, after which JSCC conducts the transfer based on the exchange's decision<sup>72</sup>. For CDS and IRS, the customer applies to JSCC via the Clearing Participant receiving the transfer, after which JSCC will confirm that the required amount of margin pertaining to the transferring positions has been deposited by such Clearing Participant. After this confirmation, JSCC transfers the positions and margin of the relevant customer<sup>73</sup>.

For Listed Derivatives, CDS, and IRS clearing businesses, the transferee Clearing Participants may determine whether they accept a transfer of positions and margin based on an agreement with the transferring customer.

There are no customer positions for transfer in relation to the Cash Products.

For OTC JGBs, currently no Clearing Participant has a non-Affiliated customer.

#### Protection from Fellow Customer Risk

JSCC has adopted arrangements to protect customers from the risk of default by another

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<sup>72</sup> OSE Rules on Margin and Transfer of Unsettled Contracts Pertaining to Futures/Options Contract Chapter 3, Section 3  
Rules on Margins, etc. for Futures and Option Contracts Articles 28 and 30

<sup>73</sup> In addition to the position transfer framework upon Clearing Participant default, for CDS and IRS, a customer is allowed to transfer its positions to a Clearing Participant, or another customer. As part of the transfer, the relevant customer positions at the transferring Clearing Participant will be cancelled.

customer using the same Clearing Participant (“Fellow Customer Risk”), according to the nature of the products it clears.

For Listed Derivatives, when a Clearing Participant elects to manage customer margin through an individual client account, each customer’s margin is managed in separate accounts opened at JSCC<sup>74</sup>. Where a Clearing Participant further elects to manage individual client accounts for Indirect Customers, the margin for each Indirect Customer is managed in separate accounts opened at JSCC. However, if a Clearing Participant elects to manage customer margin through an omnibus account, the margin for multiple customers is managed on a gross basis. In each case, the right of a customer to request return of its own margin is specified in JSCC’s Business Rules<sup>75</sup>. These arrangements eliminate Fellow Customer Risk.

Japanese laws and regulations, JSCC’s Business Rules, and the subordinate rules<sup>76</sup> require Clearing Participants to deposit customer margin with JSCC on a gross basis as an agent for their customers. This means that Clearing Participants are unable to offset the positions of each customer with those of other customers when depositing margin.

In order to facilitate the smooth transfer of customer positions/margin or return of customer margin at the time of a Clearing Participant’s default, Clearing Participants are obligated by JSCC’s rules to promptly provide details regarding customer positions/margin deposited with JSCC in response to JSCC’s request (including in times of market stress)<sup>77</sup>. JSCC regularly conducts reviews to ensure Clearing Participants are able to comply with this requirement.

For the CDS, IRS, and OTC JGB Clearing Businesses, customer margin is individually segregated in accounts for each customer<sup>78</sup> at JSCC, on a gross basis. Clearing Participants must deposit the full amount of customer margin with JSCC. JSCC has no rule that allows for the netting of positions recorded in a customer account, with those in the account of another customer using the same Clearing Participant, upon default of a customer.

#### Legal Basis for Customer Protection

Japanese law stipulates that in the event of a Clearing Participant default, JSCC’s rules shall be applied in preference to general Japanese Bankruptcy Act, for the management of outstanding positions, between the defaulting Clearing Participant and JSCC<sup>79</sup>.

Therefore, JSCC has the legal powers to liquidate the proprietary positions of a defaulting Clearing Participant and to transfer or liquidate the customer positions of a defaulting Clearing Participant, as stipulated in JSCC’s rules.

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<sup>74</sup> Business Rules Articles 46-3 and 46-4.

<sup>75</sup> Article 24 of the Rules on Margins, etc. for Futures and Option Contracts specifies that each customer has a right to claim refund of initial margin (referred to as “Margin” in the Business Rules concerning listed derivatives) deposited with JSCC through a Clearing Participant, which is acting as an agent. The amount of initial margin which each customer has a right to claim refund for is specified as the amount of initial margin deposited with JSCC less the unfulfilled obligations pertaining to futures/options contracts owed by the customer to the Clearing Participant. This means that the margin each customer deposits with JSCC will not be used to compensate the losses of other customers.

<sup>76</sup> FIEA Article 43-2  
Rules on Margins, etc. for Futures and Option Contracts Article 24

<sup>77</sup> Rules on Margins, etc. for Futures and Option Contracts Article 26

<sup>78</sup> CDS Clearing Business Rules Article 59  
IRS Clearing Business Rules Article 59  
OTC JGB Clearing Business Rules Article 39

<sup>79</sup> FIEA Article 156-11-2

In the event of the commencement of insolvency proceedings in a foreign jurisdiction against a Clearing Participant, the effect of such insolvency proceedings extend to Japan only upon a Japanese court's order of recognition of such proceedings, based on the provisions of the "Act on Recognition of and Assistance for Foreign Insolvency Proceedings."

Such proceedings in a foreign jurisdiction shall only apply to the properties of a defaulting Clearing Participant upon the issuance of an assistance order by a Japanese court. As this order will be issued if the relevant proceedings should not be a major obstacle for the bankruptcy proceedings in Japan, such proceedings in a foreign jurisdiction are expected to be similar to those of Japan.

**Key Consideration 2:**

**A CCP should employ an account structure that enables it readily to identify positions of a participant's customers and to segregate related collateral. A CCP should maintain customer positions and collateral in individual customer accounts or in omnibus customer accounts.**

Please see Key Consideration 1 of this Principle for how customer positions/margin are segregated from those of Clearing Participants.

JSCC requires the deposit of margin based on customer positions for CDS, IRS, and Listed Derivatives transactions. For CDS and IRS transactions, customers are required to deposit the amount required for initial margin and variation margin. For Listed Derivatives, they are required to deposit the amount required for initial margin.

JSCC manages customer positions for OTC JGBs, CDS, and IRS transactions in individual accounts, and those for Listed Derivatives in an omnibus account, or an individual client account, as elected by the Clearing Participant. Customer margin is required to be deposited via Clearing Participants acting as agents to JSCC on a gross basis.

As in Key Consideration 1 of this Principle, customer margin is protected from Fellow Customer Risk by segregated management as required by the FIEA, JSCC's Business Rules, and subordinate rules.

**Key Consideration 3:**

**A CCP should structure its portability arrangements in a way that makes it highly likely that the positions and collateral of a defaulting participant's customers will be transferred to one or more other participants.**

As in the preceding Key Consideration 1, JSCC allows for the transfer of customer positions/margin. In addition to such procedures being stipulated in JSCC's Business Rules and their subordinate rules, the process is publicly disclosed when a Clearing Participant defaults. Furthermore, the effectiveness of JSCC's transfer arrangements was demonstrated during the 2008 Lehman Brothers Crisis.

**Key Consideration 4:**

**A CCP should disclose its rules, policies, and procedures relating to the segregation and portability of a participant's customers' positions and related collateral. In particular, the CCP should disclose whether customer collateral is protected on an individual or omnibus basis. In addition, a CCP should disclose any constraints, such as legal or operational constraints, that may impair its ability to segregate or port a participant's customers' positions and related collateral.**

The details of the segregated management and position/margin transfer arrangements for each of JSCC's Clearing Businesses are specified in its Business Rules, their subordinate rules and related rules (for Listed Derivatives, including the exchange's rules). These rules are publicly available on JSCC's and the exchange's websites. Customer margin is protected from the risk of a Clearing Participant default and Fellow Customer Risk (See Key Considerations 2 through 3 of this Principle).

Japanese law stipulates that in the event of a Clearing Participant default, JSCC's rules shall be applied in preference to general Japanese Bankruptcy Act, for the management of outstanding positions, between the defaulting Clearing Participant and JSCC. As such, JSCC views the risk, cost and uncertainty related to segregated management and position/margin transfer arrangements to be extremely limited.

## Business Risk Management and Operation Risk Management

### **Principle 15: General Business Risk**

*An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialize. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.*

#### **Key Consideration 1:**

**An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.**

General business risks at JSCC are the risks and potential losses that may arise from JSCC's administration and operation and that are not related to the default of a Clearing Participant, nor are separately covered under credit or liquidity risk management framework.

These risks could result in losses from poor execution of business strategy, operational risk (including IT system risk and other operational risk), investment risk, negative cash flows, or unexpected and excessively large operating expenses.

In addition to continuously confirming the execution of business plans and financial conditions, JSCC monitors operational risk (including IT system risk and other operational risk) and investment risk on a monthly basis within the comprehensive risk management operation outlined in Principle 3 (Framework for the Comprehensive Management of Risks).

#### **Key Consideration 2:**

**An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery of orderly wind-down, as appropriate, of its critical operations and services if such action is taken.**

JSCC holds sufficient liquid net assets funded by equity to continue operations and service provision even if it incurs general business losses.

JSCC considers that the above liquid net assets funded by equity must be sufficient to cover a minimum of six months of operating expenses, to cover JSCC's operational risk (including IT system risk and other operational risk) and investment risk.

JSCC monitors the sufficiency of the above liquid net assets on a monthly basis within the comprehensive risk management operation outlined in Principle 3 (Framework for the Comprehensive Management of Risks).

**Key Consideration 3:**

**An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.**

As mentioned above, JSCC holds sufficient liquid net assets funded by equity to cover operating expenses for 6 months. These liquid assets are managed separately from the resources used when a Clearing Participant defaults. Therefore, even in the event of JSCC's recovery or orderly wind-down, Clearing Participants would have sufficient time to address the transition in their operations.

Furthermore, JSCC has a capital recovery plan which lists the measures to address the situation during a 6-month period in the event of losing revenues due to an unexpected event, including system failure or inappropriate operations.

With regard to recovery and resolution, JSCC will revise its recovery plan, if necessary, based on continuing discussions with regulators, Clearing Participants, and other related parties regarding the international standards for FMI recovery and orderly resolution published by CPMI-IOSCO and the Financial Stability Board ("FSB").

**Key Consideration 4:**

**Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.**

JSCC's liquid net assets funded by equity are held in the form of Japanese Yen cash (deposited in settlement accounts, or on term deposit), JGBs, and government guaranteed bonds. These are of high quality and highly liquid, even in stressed market conditions. The settlement accounts held by JSCC are entirely covered by the Japanese Deposit Insurance System.

Japanese yen cash is held at banks which meet JSCC's specific criteria for investment risk. (See Principle 16 (Custody and Investment Risks) for further details.)

**Key Consideration 5:**

**An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.**

JSCC's capital recovery plan details the actions which JSCC may take if its capital decreases significantly, or if it falls below the level required to cover 6 months of operating expenses. These actions may include:

- Comprehensive review of all expenses, including salaries and compensation;
- Revision of Clearing Fee;
- Revision of JSCC's Business Plan;
- Discussions with stakeholders, such as parent company and other shareholders, regarding an injection of additional capital; and
- Reassessment and restructuring of JSCC's businesses and operations.

JSCC reviews the Capital Recovery Plan at least once a year, and conducts revisions as necessary. When conducting revisions, the details of the revisions are reported to and approved

by the Board of Directors as necessary.

## **Principle 16: Custody and Investment Risks**

*An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.*

### **Key Consideration 1:**

**An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.**

#### Custodian for JSCC's Assets

The scope of eligible investment products for JSCC's own assets is limited to term deposit, JGBs, and government guaranteed bonds, in accordance with JSCC's "Policies for Fund Management of Own Assets."

The custodians for deposit in settlement account and term deposit are limited to banks designated based on criteria specified by JSCC. See Principle 4 (Credit Risk) for further details.

JGBs and government guaranteed bonds are held in the customer accounts of the financial institutions from which JSCC purchased them. Even in the event of the default of such financial institutions, the customer account assets are protected by the "Act on Book-Entry Transfer of Company Bonds, Shares, etc."

#### Custody for Clearing Participant and Customer Assets

Custody of the collateral of Clearing Participants and their customers is limited to CSDs that are subject to the PFMI, and the central bank, as well as custodians that satisfy the criteria specified in JSCC's "Policies for Designation of Custodians of Posted Collateral."

#### Management of Custodian Risk

Commercial banks holding JSCC's own assets are limited to those which satisfy JSCC's criteria. Banks holding assets of Clearing Participants and their customers posted as collateral are limited to CSDs, subject to the PFMI, and the central bank, as well as custodians that satisfy the "Policies for Designation of Custodians of Posted Collateral."

The relevant criteria and guidelines require custodians, other than CSDs and the central bank, to be subject to regulatory supervision, have stable business processing capability, stable profitability, and a certain level of financial strength and credit.

JSCC regularly monitors all custodians from an operational risk perspective, and all custodians other than the central bank from a financial standing perspective.

### **Key Consideration 2:**

**An FMI should have prompt access to its assets and the assets provided by participants, when required.**

#### Access to JSCC's Own Assets

JSCC holds its own assets in accounts under its own name, thus allowing for prompt access

to such assets when necessary.

#### Access to Clearing Participant and Customer Deposited Assets

Collateral deposited by Clearing Participants and customers is held in accounts for the purpose of collateral custody under JSCC's name, thus allowing for JSCC's prompt access to such assets when necessary.

US Treasuries, deposited for the IRS Clearing Business and the CDS Clearing Business, are held in JSCC's account with a custodian located in the U.S., and foreign government bonds (US Treasuries and government bonds of UK, Germany, and France), deposited for the Listed Derivatives Clearing Business, are held in JSCC's account with an overseas CSD (Euroclear Bank SA/NV), and can be accessed promptly.

#### Legal Basis

Japanese law provides a sound legal basis for the rights of an account holder to access its assets.

The legal basis for access to the overseas CSD (Euroclear Bank SA/NV) that is the custodian for US Treasuries and the government bonds of UK, Germany, and France, has been confirmed in the course of the due diligence conducted on these entities as a part of the contract execution process.

The FIEA states that, in the event of a Clearing Participant default, with a prescription in a CCP's Business Rules, a defaulting Clearing Participant's collateral can be applied to the fulfillment of obligations with the CCP in preference to general bankruptcy proceedings, ensuring JSCC's stable access to collateral. (See Principle 1 (Legal Basis) for the handling of cross-border collateral.)

#### **Key Consideration 3:**

**An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each.**

With a view to eliminating credit risk of custodians where collateral is deposited for Clearing Participants and their customers to the extent possible, as described in Key Consideration 1 of this Principle, custodians are limited to CSDs that are subject to the PFMI, the central bank, and commercial banks satisfying the criteria set forth in the "Policies for Designation of Custodians of Posted Collateral." In the "Policies for Designation of Custodians of Posted Collateral," JSCC requires custodians to have stable profitability, a certain level of financial strength and credit, and stable operational processing capabilities.

JSCC continuously monitors that custodians satisfy the "Policies for Designation of Custodians of Posted Collateral" by regularly receiving reports on the financial conditions of custodians and confirming the smooth execution of daily custody operations.

Additionally, JSCC has designated multiple banks as custodians of cash collateral. JSCC monitors the concentration status on a monthly basis.

**Key Consideration 4:**

**An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.**

JSCC's basic investment policy is stipulated in the Risk Management Policy, which is subject to approval by the Board of Directors and Risk Oversight Committee. The scope of eligible products is restricted to ensure funds are invested only in the highly stable and liquid products. Specifics are specified in the "Policies for Fund Management of Own Assets" and "Policies for Management of Posted Collateral."

In accordance with these policies, JSCC limits the scope of eligible products for investment of collateral to ordinary deposits, lending to bank accounts of Trust Banks, and secured call loans on JGBs, and limits the scope of eligible products for investment of its own assets to term deposits, JGBs, and government guaranteed bonds. Only banks satisfying certain criteria are used as banks accepting ordinary deposit, term deposit, or lending to bank accounts of Trust Banks. Thereby credit risk related to asset management is mitigated, to the extent possible.

These policies are publicly available on JSCC's website.

## **Principle 17: Operational Risk**

***An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.***

### **Key Consideration 1:**

**An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.**

JSCC's Risk Management Policy establishes a framework for internal controls to identify, monitor, and manage all operational risks across JSCC's Clearing Businesses. See Principle 3 (Framework for the Comprehensive Management of Risks) for further details.

### **Identification and Management of Operational Risk**

JSCC's Risk Management Policy identifies the following risks and prescribes processes to manage them:

- General Operation Risk: operational mistakes, insufficient human resources, outsourcing risks
- System Risk: computer system failure, system malfunctions, improper usage of computers

In addition to these risks, the Risk Management Policy provides for basic policies for business continuity and related management methods in order to restore and continue operations as soon as possible in the event of a terrorist attack or large scale natural disaster.

JSCC manages operational risk within the comprehensive risk management operation. Specifically, reports are given to the Risk Oversight Committee on a monthly basis, regarding compliance with the Risk Management Policy related to General Operational Risk, System Risk, and the business continuity framework. Additionally, JSCC reports the same information to the Board of Directors on a quarterly basis. At least once a year, JSCC reviews the Risk Management Policy, including a review of the management policy for operational risk. See Principle 3 (Framework for the Comprehensive Management of Risks).

### **General Operation Risk Management**

JSCC's Risk Management Policy stipulates basic policies for managing General Operation Risk. These include:

- Securing sufficient capacity for operations;
- Establishing an internal control framework to prevent operational errors;
- Establishing information security measures; and
- Managing outsourcing arrangements.

Based on the basic policies, JSCC stipulates the details of these within the following rules:

- Rules on Management of Operational Process;
- Information Security Basic Policies;
- Information Security Countermeasure Standards; and
- Outsourcing Management Rules.

As part of its internal control framework to prevent operational errors, when establishing operational flows, JSCC uses Enterprise Risk Management (ERM) methods to identify potential risks and devises measures to prevent and control them in advance. The risks arising from each business are identified via the ERM framework on a regular and company-wide basis, and appropriate measures are planned to prevent their occurrence, based on frequency and severity. Through this process, when changing rules or introducing new products, JSCC enables stable and continuous operations which do not rely on specific staff, by accumulating the knowledge among operational staff and outsourced personnel.

Additionally, each of JSCC's Clearing Businesses verify their manuals/checklists at least once a year, and conduct revisions as necessary when introducing new products and changing rules.

In the event operational errors occur for one of the Clearing Businesses, JSCC will investigate the cause and devise measures to prevent reoccurrence which are reported to the Risk Oversight Committee, depending on significance and impact. Through this process, JSCC continuously controls General Operation Risks.

### System Risk Management

JSCC's Risk Management Policy stipulates the basic policies for managing System Risk. These include:

- Secure sufficient system processing capacity;
- Conduct system development based on an appropriate plan with sufficient testing;
- Prepare a contingency plan for the occurrence of system failures and cyber security incidents;
- Establish information security measures; and
- Manage outsourcing arrangements.

Based on the basic policies, JSCC stipulates the details of these in the:

- System Risk Management Policy;
- System Risk Management Rules;
- Information Security Basic Policies;
- Information Security Countermeasures Standards;
- Outsourcing Management Rules; and
- Manual for Handling Incidents Suspected of Cyberterrorism

JSCC outsources primary system processes for its Clearing Businesses. JSCC evaluates the associated risks according to the "Outsourcing Management Rules" and "Outsourcing Selection Criteria."

Should an unexpected event occur, such as a system failure, JSCC will investigate the cause and devise measures to prevent reoccurrence which are to be reported to the Risk Management Committee, depending on significance and impact. In addition to this, JSCC reports system capacity and processing capabilities, system development status, and outsourcing management status to the Risk Oversight Committee. Through this process, JSCC continuously controls System Risk.

### Potential Single Points of Failure

Within the system development process for its Clearing Businesses, JSCC identifies single points of failure in advance, and incorporates redundant configurations. Additionally, JSCC verifies whether failovers occur as expected in system testing. As such, JSCC does not view there to be any potential single points of failure in its IT systems operating Clearing Businesses.

## Business Continuity Plan

JSCC's Risk Management Policy stipulates the basic policies and management methods related to the business continuity framework. These include:

- Preparing redundancy within IT systems;
- Securing a back-up data center and back-up office;
- Preparing a Business Continuity Plan; and
- Aiming to restore business operations within 2 hours.

Based on the basic policies, JSCC stipulates the details of these in the "BCP Basic Plan." Furthermore the two hour target for restoring business operations is in line with the business continuity target set by the Securities Market BCP Forum, which is a conference for the Japanese securities industry.

In the event a risk occurs which threatens JSCC's business continuity, JSCC will take measures based on the "BCP Basic Plan" to prevent and control factors which harm business continuity.

JSCC has equipped its systems with redundancy and established a back-up data center and back-up office, the effectiveness of which it regularly verifies. The specific verification framework includes synchronization between primary and back-up centers, regular data center switching drills, maintenance of back-up office equipment and facilities, executing operations from the back-up office, updating manuals based on the "BCP Basic Plan" and staff BCP education.

JSCC reports the progress of the above to the Risk Oversight Committee. Through this process, JSCC confirms the effectiveness of its BCP.

## Framework to Secure Necessary Personnel and Personnel Compliance

JSCC continuously strives to secure human resources with the ability to execute its Clearing Businesses and perform risk management.

Specifically, to reduce the risk of losing key personnel, JSCC employs individuals with the necessary operational and risk management knowledge for each Clearing Business, and cultivates employee knowledge and capabilities via education and training.

JSCC's Risk Management Policy stipulates the basic policies for managing compliance risk. These include establishing a compliance framework based on a compliance program including a code of conduct, and keeping staff informed of the program's details. Based on these basic policies, JSCC stipulates the Code of Conduct setting forth common standards for officers and employees, the arrangement concerning management of internal information and the Compliance Program, for which it continuously conducts employee education and training. JSCC reports risk management conditions related to compliance to the Risk Oversight Committee as necessary. Through this process, JSCC prevents misconduct.

### **Key Consideration 2:**

**An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk-management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.**

JSCC's Board of Directors has final responsibility in relation to JSCC's operational risk management. Through the comprehensive risk management operation, JSCC manages operational risk. Revisions of the Risk Management Policy, which provides for basic risk management policies, are made via resolution by the Board of Directors. JSCC validates the

Risk Management Policy at least once a year. The process and the results of this validation are reported to the Board of Directors. See Principle 2 (Governance) for more details on the roles of JSCC senior management and the Board of Directors.

JSCC's Board of Directors receives reports regarding compliance with the Risk Management Policy for operational risk on a quarterly basis. JSCC provides the Operational Procedures to realize smooth clearing operations with Clearing Participants. Additionally, JSCC provides System Connection Specifications to realize stable system operations with Clearing Participants. These Operational Procedures and System Specifications clarify operational details and deadlines to avoid misunderstanding with Clearing Participants, and facilitate operational risk management. When changing operational procedures and implementing new products, these documents are revised as necessary and system testing is performed with Clearing Participants in advance, thus allowing for verification and evaluation.

Furthermore, for replacement of critical systems, or similar large development projects, JSCC will seek evaluation by external experts, when necessary.

**Key Consideration 3:**

**An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.**

JSCC's Risk Management Policies clearly define their objective to "establish robust and comprehensive risk management frameworks, ensure steady provision of the Clearing Businesses, and prevent a loss of JSCC's capital."

To achieve this objective, JSCC regularly confirms that all critical systems have sufficient processing capacity for current levels of utilization and forecasted future requirements. Capacity targets and actual performance data are presented in the monthly Risk Oversight Committee, and the sufficiency of system capacity and processing capabilities is confirmed.

**Key Consideration 4:**

**An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.**

JSCC has put in place the following measures to ensure its systems have sufficient processing capabilities:

- All critical systems are required to have sufficient processing capacity to handle a steep increase in processing volume; and
- A warning threshold is implemented into monitoring procedures, which triggers if utilization exceeds certain threshold set according to the features of each system. This is to ensure that measures can be implemented to increase the system capacity well in advance of the required time frame.

**Key Consideration 5:**

**An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.**

Physical Security

The primary data center which houses JSCC's clearing system satisfies all the requirements of "The Center for Financial Industry Information Systems: Security Guidelines on Computer Systems for Banking and Related Financial Institutions," which is the standard for Japanese financial market safety, and has received ISMS certification.

For continuous certification, ISMS conducts ongoing review and examination for certification renewal, once a year and once each three years, respectively. Risk mitigation measures are taken if necessary as a result of such review.

In addition, JSCC has established the “Information Security Basic Policies” and “Information Security Countermeasure Standards” as internal rules, under which measures against physical vulnerability and threats have been implemented.

#### Information Security

JSCC’s “Information Security Basic Policies” provides basic policies and a management framework for appropriately handling information assets. In the “Information Security Countermeasure Standards,” which is based on the “Information Security Basic Policies,” JSCC stipulates matters to be handled from the viewpoint of information security in relation to its information and information systems. These include management of connections to external networks, anti-virus measures, and the establishment of system access procedures.

When establishing the “Information Security Basic Policies” and “Information Security Countermeasure Standards,” JSCC consulted with experts on industry standards.

The Division responsible for JSCC’s information security confirms compliance conditions with the “Information Security Basic Policies” and “Information Security Countermeasure Standards” on an annual basis. If it is determined that the current criteria are not appropriate, as a result of this check, due to a change in industry standards, advancement of technology, or other reasons, the criteria shall be revised and updated.

Additionally, JSCC has confirmed that the outsourcee for the clearing system has stipulated technology security objectives for JSCC’s clearing system, and satisfies the certification criteria of ISO27001/ISMS.

#### **Key Consideration 6:**

**An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.**

#### Objectives of BCP Basic Plan

The purpose of JSCC’s “BCP Basic Plan” is to restore and resume JSCC’s business operations, following a terrorist attack or natural disaster.

#### Design of BCP Basic Plan

JSCC’s “BCP Basic Plan” stipulates that even if an event which causes entire or partial operation interruption occurs (risk event), measures shall be taken to enable prompt recovery and resumption of material business operations, and the detailed measures thereof. These include employment of secure system redundancy, establishment of back-up data centers, and back-up offices.

JSCC’s “BCP Basic Plan” is designed to enable full recovery of its business operations within 2 hours of the occurrence of a terrorist attack, natural disaster, or other risk events. It also sets forth communication flow with internal and external critical stakeholders and regulators.

## Secondary Site

JSCC maintains a secondary site in addition to its primary site. Clearing systems are located at both sites and are equipped with the same level of processing capacity.

The secondary site is maintained as an active site, which allows for swift switchover from the primary site. Full-time system operations personnel are assigned to the secondary site.

JSCC's primary and secondary sites are geographically separated with different power and communications infrastructure. JSCC sees an extremely low probability of both sites simultaneously being affected by a disaster. A full detailed analysis of the risk profile was conducted at the time the secondary site was selected.

Data synchronization between JSCC's primary and secondary centers runs on a semi-real-time basis (1-minute intervals). Therefore JSCC considers that the possibility of data loss is extremely low.

In the unlikely event of data loss in the clearing system, JSCC would be able to recover lost data by employing processes such as data acquisition from, and reconciliation with, other market operators and financial institutions.

## Review and Testing

In order to verify the adequacy and effectiveness of JSCC's "BCP Basic Plan," JSCC conducts BCP fire-drills at least once a year. These fire-drills include data synchronization to the back-up data center, regular data center switchover tests, back-up office maintenance, running operations from the back-up center, updating manuals based on the "BCP Basic Plan," and staff BCP education.

JSCC participates, alongside other FMIs, such as the BOJ and JASDEC, in an industry-wide BCP exercise organized by the JSDA and Japanese Bankers Association, or BCP exercise organized by another FMI, at least once per year.

These exercises assume a wide-area disaster and involve a broad scope of institutions.

Based on the results and opinions/recommendations arising from these exercises, JSCC will amend the "BCP Basic Plan" as necessary.

JSCC makes reports regarding the matters above to the Risk Oversight Committee. Through this process, JSCC continually confirms the effectiveness of its business continuity framework.

### **Key Consideration 7:**

**An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.**

## Risks to JSCC's Operations from outside entities

Within JSCC's "BCP Basic Plan" and "Guidelines for Handling upon System Failure," JSCC provides contingency plans for cases of a system failure on the side of other FMIs, market operators, or Clearing Participants with which JSCC has connection. The effectiveness of these plans is confirmed through the BCP exercise process detailed above.

JSCC identifies risks related to system development and operations on the side of outsourcees and regularly confirms the status of response measures, in addition to confirming the satisfaction of reliability and contingency criteria by regularly holding switchover drills with such outsourcees.

Risks that JSCC may pose to other FMI

Should JSCC experience an operational risk event, JSCC has formulated arrangements with other FMIs to deal with such situations in the “BCP Basic Plan.” This ensures that an operational risk event at JSCC does not have a systemic impact on other FMI.

## **Principle 18: Access and Participation Requirements**

*An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.*

### **Key Consideration 1:**

**An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.**

JSCC has established criteria for the acquisition and maintenance of Clearing Qualification for each of JSCC's Clearing Businesses<sup>80</sup>. Each Clearing Business's criteria are rationally aligned with the risks and nature of that business, do not impose excessive restrictions on entities eligibility for participation, and ensures open access to those applying for Clearing Qualification. JSCC has established no limitations on the attributes of Clearing Participant customers and does not charge fees that operate to overly limit participation.

Based on the assumption that an applicant is an entity registered with the JFSA, participation criteria broadly cover the following requirements:

- Management Structure;
- Financial Requirements; and
- Business Structure.

The participation criteria are stipulated in the Business Rules of each Clearing Business and have been approved by the JFSA. This approval is based on the FIEA's prohibition of discriminatory treatment, and affirms the open access which the criteria provide<sup>81</sup>. The participation criteria are publicly available.

### **Key Consideration 2:**

**An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavor to set requirements that have the least restrictive impact on access that circumstances permit.**

JSCC has established participation criteria that are rationally aligned with the relevant risks, the nature of each Clearing Business, and the attributes of Clearing Participants. JSCC considers the criteria to feature minimum and sufficient requirements for maintaining the stability and efficiency of its Clearing Businesses.

Participation in the Listed Products (Cash Products and Listed Derivatives) Clearing Business or OTC JGB Clearing Business is divided into Principal and Agency. The participation criteria for Agency Clearing Participants, which are able to provide clearing access to other entities, are stricter than those for Principal Clearing Participants. When Clearing Participants for the IRS Clearing Business provide clearing services to non-Affiliate customers, JSCC requires the maintenance of a structure for properly managing customer risk and preventing

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<sup>80</sup> Listed Products Clearing Business Rules Chapter 2  
OTC JGB Clearing Business Rules Chapter 2  
CDS Clearing Business Rules Chapter 2  
IRS Clearing Business Rules Chapter 2

<sup>81</sup> FIEA Article 156-9

improper infringement of customer interests. Entities eligible to be JSCC Clearing Participants include Financial Instrument Business Operators, banks, or insurance companies. JSCC has established eligibility criteria based on indicators of financial soundness appropriate for these entities.

The participation criteria are publicly available, and can be accessed by all current and potential Clearing Participants. The participation criteria are amended as needed according to changes in the regulatory environment and general market conditions.

**Key Consideration 3:**

**An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.**

Monitoring Participant Compliance

JSCC continuously monitors Clearing Participants for ongoing compliance with the participation criteria for each of JSCC's Clearing Businesses.

(1) Monitoring Compliance with Financial Criteria

JSCC receives reports on Clearing Participant finances monthly, quarterly, semi-annually, and annually to monitor the soundness of Clearing Participant finances. The reports Clearing Participants submit to JSCC are the same as those submitted to regulators. Additionally, JSCC monitors daily news for information on Clearing Participant finances, as well as credit ratings, market information (stock prices, CDS/bond spreads).

(2) Monitoring Compliance with Management/Business Structure Criteria

JSCC requires Clearing Participants to submit a report when there is a change in executive officer or major shareholder in order to monitor the soundness of their management. JSCC also monitors daily news for information on Clearing Participant management, and business structure, such as office transfers or reductions in operations. JSCC also conducts monitoring of daily clearing operations, including payments, securities deliveries, and whether collateral is deposited on time.

Measures against Clearing Participants

When JSCC determines that a Clearing Participant does not satisfy participation criteria or has violated JSCC rules, JSCC will take disciplinary measures against the Clearing Participant according to the methods prescribed in the Business Rules of each Clearing Business<sup>82</sup>.

Before determining the measures, JSCC will consult the Disciplinary Measures Assessment Committee regarding the appropriateness of the measures. The Disciplinary Measures Assessment Committee is composed of multiple experts, including lawyers and academics, and is independent from JSCC. The Disciplinary Measures Assessment Committee Rules stipulates

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<sup>82</sup> Listed Products Clearing Business Rules Chapter 2, Section 5  
CDS Clearing Business Rules Chapter 2, Section 5  
OTC JGB Clearing Business Rules Chapter 2, Section 5  
IRS Clearing Business Rules Chapter 2, Section 6

that a committee member having any special interest in an agenda item is not allowed to participate in the relevant deliberation.

These measures include issuing instructions on business structure or position improvement, the suspension of all or part of its clearing services and revocation of Clearing Qualification for the relevant Clearing Participant. Prior to these measures, JSCC may request the submission of materials or conduct an on-site examination to gain a better understanding of the Clearing Participant's finances, management, and business structure, if JSCC deems such a request necessary to ensure the stable operations of the Clearing Business. In order to promote improvement at the Clearing Participant, JSCC may recommend appropriate measures based on its rules.

In cases where a Clearing Participant withdraws from the Clearing Business due to revocation of qualifications, such Clearing Participant is required to dissolve its positions and fulfill its obligations before its qualifications are revoked. As such, JSCC ensures the withdrawal of a Clearing Participant is conducted in an orderly manner.

If JSCC suspends clearing for a Clearing Participant or revokes a Clearing Participant's Clearing Qualification, it will notify all relevant stakeholders, including other Clearing Participants and market operators, and make a public announcement.

## **Principle 19: Tiered Participation Arrangements**

***An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.***

### **Key Consideration 1:**

**An FMI should ensure that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements.**

Clearing Participants are direct participants of JSCC with access to JSCC's Clearing Businesses.

Entities that are not Clearing Participants may access JSCC's clearing services through a Clearing Participant, as a customer of such Clearing Participant, in accordance with a contract with such Clearing Participant ("Indirect Participant"). The scope of Indirect Participants may vary by Clearing Business, and includes brokers, banks, asset managers, pension funds, hedge funds, non-financial corporate entities, and individuals.

For each of JSCC's Clearing Businesses, the following Indirect Participants are accepted:

- Listed Products Clearing Business: Customers (including Indirect Customers) of Clearing Participants, Trading Participants of Exchanges (non-JSCC Clearing Participants) and customers (including Indirect Customers) of Trading Participants<sup>83</sup>
- CDS Clearing Business: Affiliates of Clearing Participant
- IRS Clearing Business: Customers of Clearing Participant<sup>84</sup>
- OTC JGB Clearing Business: Affiliates of Clearing Participant

### **(1) Rules/Agreements for Gathering Indirect Participant Information**

JSCC's Business Rules, subordinate rules, and Clearing Brokerage Agreements authorize it to gather information on the nature of Indirect Participants via Clearing Participants.

The rules for JSCC's Listed Product (Cash Products and Listed Derivatives) Clearing Business state that, when JSCC requests, a Clearing Participant must provide information relating to the position of Indirect Participants, allowing JSCC to maintain an understanding of each Indirect Participant's positions<sup>85</sup>. For the Listed Derivatives, the Clearing Participants are allowed, under the rules, to elect for the management of each Customer, or Indirect Customer, in individual client accounts. In this case, JSCC has full disclosure of the positions of the Customers and Indirect Customers<sup>86</sup>. When a Clearing Participant elects for the management of its Customers using an omnibus client account, the Clearing Participant is required to report the position details to JSCC, for each customer or Indirect Customer, on a daily basis, according to the customer position management style. In both cases, if a client's position are considered to be excessive, JSCC may request that the Clearing Participant report additional information relating to the position, such as the margin requirement related to the position, the margin

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<sup>83</sup> Customers of the Listed Products Clearing Business include both Affiliates of Clearing Participants and non-Affiliates.

<sup>84</sup> Customers of the IRS Clearing Business include both Affiliates of Clearing Participants and non-Affiliates.

<sup>85</sup> Listed Products Clearing Business Article 40  
Contract for Commissioning Clearance Article 16  
Rules on Margins, etc. for Futures and Options Contracts Article 26

<sup>86</sup> Business Rules for Listed Products Clearing Business Articles 46-3 and 46-4.

deposit status concerning that position, and the Clearing Participant's status of management of the relevant customer or Indirect Customer. If, despite JSCC's request, the Clearing Participant fails to submit this additional information, JSCC may increase the Initial Margin requirement for the relevant Clearing Participant, or issue an instruction to reduce the position<sup>87</sup>. Thereby, JSCC has effective knowledge of the positions of each Indirect Participant.

The Business Rules and subordinate rules for JSCC's CDS, IRS, and OTC JGB Clearing Businesses provide that separate accounts should be maintained for each Indirect Participant at JSCC. This allows JSCC to maintain an understanding of each Indirect Participant's positions<sup>88</sup>.

## (2) Risks to JSCC arising from Tiered Participation

Please see Key Consideration 3 of this Principle for the risks to JSCC arising from tiered participation arrangements and the management of such.

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<sup>87</sup> Business Rules of Listed Products Clearing Business Article 21-2.

<sup>88</sup> CDS Clearing Business Rules Article 59  
IRS Clearing Business Rules Article 59  
OTC JGB Clearing Business Rules Article 39

**Key Consideration 2:**

**An FMI should identify material dependencies between direct and Indirect Participants that might affect the FMI.**

By monitoring the position risk of Clearing Participants, JSCC is able to identify dependencies between Clearing Participants and Indirect Participants. Specifically, in order to avoid a customer's default having a significant impact on such customer's Clearing Participant, JSCC will, as necessary, request information from a Clearing Participant regarding the positions of individual Indirect Participants and their risk management, and confirm whether there are any issues in comparison to the financial strength of such Clearing Participant.

**Key Consideration 3:**

**An FMI should identify Indirect Participants responsible for a significant proportion of transactions processed by the FMI and Indirect Participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions.**

Clearing Participants are responsible for their related Indirect Participants' financial obligations to JSCC, even when such Indirect Participants do not fulfill such obligations. As such, JSCC monitors whether Clearing Participants have excessive exposure to Indirect Participants in comparison to their financial strength at least once a day for all products, and more frequently for certain products.

Additionally, under the Business Rules and subordinate rules, JSCC may acquire additional information from Clearing Participants on each Indirect Participant as necessary, allowing it to maintain an understanding of detailed position information and risk management of Indirect Participants, and identify Indirect Participants which may have a significant impact on Clearing Participant risk management. Through these measures JSCC conducts its risk management.

Based on this monitoring, JSCC may take additional risk reduction measures, such as requiring additional collateral or a reduction of positions.

**Key Consideration 4:**

**An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate.**

When determining to take the risk reduction measures mentioned in Key Consideration 3 of this Principle, JSCC consults with the Disciplinary Measures Assessment Committee to ensure the objective propriety of such measures. The Disciplinary Measures Assessment Committee is composed of 5 members, including lawyers, academics, and other experts, and maintains independence from JSCC.

## **Principle 20: FMI Links**

***An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.***

### **Key Consideration 1:**

**Before entering into a link arrangement and on an ongoing basis once the link is established, an FMI should identify, monitor, and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that each FMI is able to observe the other principles in this report.**

JSCC conducts an assessment of potential risks prior to establishing a proposed link arrangement, including those related to trading and clearing. In this assessment, JSCC examines the potential risks relating to legal, credit, liquidity, regulatory, and operational areas that may have an impact on JSCC.

Currently, JSCC only has FMI links with the following entities:

- JASDEC, as custodian of securities settlement and collateral in municipal and corporate bonds, listed stocks, ETF, REIT, CB and non-exchange traded investment trusts for the Listed Product Clearing Business.
- BOJ, as a Fund Settlement Bank for money settlement and a custodian of JGB settlement and collateral.
- Euroclear Bank SA / NV as custodian for foreign government bonds (US Treasuries, government bonds of UK, Germany and France)
- DTCC Data Repository (U.S.) LLC, as a trade repository of trade information under CFTC Regulations for the IRS Clearing Business.
- Hong Kong Trade Repository (hereinafter referred to as “HKTR”), an OTC derivatives trade repository operated by the Hong Kong Monetary Authority, as an organization to which trade information shall be reported under the SFO for the IRS Clearing Business.

These links are established by JSCC’s participation in the systems of each FMI. Each FMI is subject to the PFMI, and therefore any potential sources of risk (such as legal, credit, liquidity, custody, and operational risk) are expected to be properly managed.

### **Key Consideration 2:**

**A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link.**

All links currently maintained by JSCC are with Japanese FMIs, except for Euroclear Bank SA / NV, DTCC Data Repository (U.S.) LLC and HKTR, and are implemented under Japanese law. Links with Euroclear Bank SA / NV are implemented under the laws of the United Kingdom and Belgium. Links with DTCC Data Repository (U.S.) LLC are implemented under the laws of the United States. Links with HKTR are implemented under the laws of Hong Kong.

Euroclear Bank SA / NV is an overseas CSD subject to the PFMI, and its legal basis for provision of appropriate protection to FMI was confirmed as part of the due diligence conducted in the course of the contract execution.

DTCC Data Repository (U.S.) LLC is registered as a Swap Data Repository (“SDR”) under CFTC Regulations, and thus is confirmed to have a well-founded legal basis providing appropriate protection to FMIs.

HKTR is an OTC derivatives trade repository operated by the Hong Kong Monetary Authority

under the Exchange Fund Ordinance, and is confirmed to have a well-founded legal basis providing appropriate protection on FMIs.

**Key Consideration 3:**

**Linked CSDs should measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high-quality collateral and be subject to limits.**

This consideration is not applicable as JSCC is not a CSD.

**Key Consideration 4:**

**Provisional transfers of securities between linked CSDs should be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final.**

This consideration is not applicable as JSCC is not a CSD.

**Key Consideration 5:**

**An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD's participants.**

This consideration is not applicable as JSCC is not a CSD.

**Key Consideration 6:**

**An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor, and manage the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary.**

This consideration is not applicable as JSCC is not a CSD.

**Key Consideration 7:**

**Before entering into a link with another CCP, a CCP should identify and manage the potential spill-over effects from the default of the linked CCP. If a link has three or more CCPs, each CCP should identify, assess, and manage the risk of the collective link arrangement.**

This consideration is not applicable as JSCC has not established a link with another CCP.

**Key Consideration 8:**

**Each CCP in a CCP link arrangement should be able to cover, at least on a daily basis, its current and potential future exposures to the linked CCP and its participants, if any, fully with a high degree of confidence without reducing the CCP's ability to fulfil its obligations to its own participants at any time.**

This consideration is not applicable as JSCC has not established a link with another CCP.

**Key Consideration 9:**

**A TR should carefully assess the additional operational risks related to its links to ensure the scalability and reliability of IT and related resources.**

This consideration is not applicable as JSCC is not a TR.

## Efficiency

### **Principle 21: Efficiency and Effectiveness**

*An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.*

#### **Key Consideration 1:**

**An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products clearing, settled, order recorded; and use of technology and procedures.**

JSCC has formal processes involving Clearing Participants to ensure its development of products and services is in-line with market needs. JSCC has established advisory committees for each Clearing Business for this purpose, specifically the Listed Products Management Committee, CDS Management Committee, IRS Management Committee, and OTC JGB Management Committee. These committees are composed of the members, including those from Clearing Participants, and are consulted with regarding major clearing/settlement frameworks, operational processing frameworks, and product development, before such matters are decided upon by the Board of Directors.

For the CDS, IRS, and OTC JGB Clearing Businesses, in order to accurately reflect Clearing Participant opinions, JSCC has established subordinate committees for those mentioned above. These include committees for risk management, operational, and legal areas.

Additionally, JSCC receives feedback related to rules/procedure revisions of clearing/settlement frameworks, operational processing frameworks, and product development via public comments and informal discussions with Clearing Participants and customers. These arrangements aim to ensure a broad range of opinions are considered in the process of establishing a properly functioning market between a diverse range of Clearing Participants and customers.

#### **Key Consideration 2:**

**An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum services levels, risk-management expectations, and business priorities.**

JSCC provides in its Corporate Philosophy:

*“JSCC, with a solid risk-management framework, aims to enhance the competitiveness of Japanese financial and capital markets by improving the efficiency, serviceability and safety of financial market post-trade processing infrastructure.”*

JSCC has defined 2 basic policies to achieve its Corporate Philosophy, namely “reinforcement of Clearing Functions, Risk Management and IT Systems towards Service Quality Improvement,” “reinforcement of the Company’s Role as Core Infrastructure through Expansion of the Scope of Services.”<sup>89</sup>

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<sup>89</sup> <https://www.jpx.co.jp/jsccl/en/company/philosophy.html>

In order to achieve its objectives, JSCC establishes a medium-term management plan to realize specific policies based on the surrounding environment, and reports the progress on a quarterly-basis to senior management and on at least an annual-basis to the Board of Directors, thereby ensuring it is measurable and attainable.

JSCC has established a comprehensive risk management framework in order to achieve the “with solid risk-management framework” in its Corporate Philosophy, under which JSCC identifies, monitors, and manages the risks it faces.

Within the comprehensive risk management, for system risk management, JSCC has set targets for system processing capacity and time required for system processing. JSCC also manages the level of financial resources it should hold.

**Key Consideration 3:**

**An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.**

As above, JSCC has established a framework for confirming the progress of the medium-term management plan and a framework for business management to systematically manage various risks. Within the regular review of these frameworks, JSCC conducts reviews of measures which have been implemented from the perspective of systems, operations, and costs.

## **Principle 22: Communications Procedures and Standards**

***An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.***

### **Key Consideration 1:**

**An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.**

JSCC uses widely accepted communication procedures and standards for communications with Clearing Participants, Fund Settlement Banks, and linked FMIs. JSCC uses the following procedures and standards for external communications.

### **Procedures/Standards for Communication with Clearing Participants**

(1) Listed Products Clearing Business (Clearing Business concerning Cash Products and Listed Derivatives)

JSCC provides dedicated terminals to Clearing Participants for everyday clearing operations. Additionally, Clearing Participants are able to use an API provided by JSCC to directly access JSCC's clearing system. JSCC also provides connection specifications for the JSCC clearing system to Clearing Participants that request them.

(2) CDS/IRS Clearing Businesses

JSCC provides trade data and other services via various portal sites, FTP (File Transfer Protocol), MQ messaging, and FpML (Financial Products Markup Language) format.

For the CDS Clearing Business, JSCC processes applications for clearing from Clearing Participants via the Trade Information Warehouse provided by The Warehouse Trust Company LLC.

For the IRS Clearing Business, JSCC processes applications for clearing from Clearing Participants through MarkitWire, provided by MarkitSERV Limited, electronic trading platforms (i.e., VCON (Voice Confirmation) function or ETP (Electronic Trading Platform) function, provided by Bloomberg Tradebook Japan Limited, QUICK-Confirmation provided by QUICK Corp. and Clear Markets Japan ETP (Electronic Trading Platform) provided by Clearing Markets Japan, Inc.) and electronic trade affirmation platforms designated by JSCC.

(3) OTC JGB Clearing Business

OTC JGB Clearing Business Communications between JSCC and Clearing Participants are conducted over TCP/IP (Transmission Control Protocol/Internet Protocol) using the Pre-Settlement Matching System provided by JASDEC, with processing based on ISO20022 messaging.

### **Procedures/Standards for Communication with Fund Settlement Banks**

JSCC uses BOJ-NET for its JPY-settlement at the central bank.

Additionally, for the transfer of Japanese Yen collateral for the Listed Products Clearing Business (Clearing Business concerning Cash Products and Listed Derivatives) through commercial banks, JSCC processes the transfer of funds through the firm banking system based on Japanese Bankers Association procedures.

JSCC processes payment/receipt of funds in non-JPY currencies, for the settlement under the IRS Clearing Business, through commercial banks using the SWIFT financial messaging service.

#### Procedures/Standards for Communication with CSD

##### Connection with BOJ (CSD for JGBs)

For book-entry transfer/DVP settlement of JGBs at BOJ, JSCC conducts operational procedures based on system connection specifications using ISO20022XML message, provided by BOJ.

##### Connection with JASDEC (CSD for stocks)

For book-entry transfer/DVP settlement of stocks at JASDEC, JSCC conducts operational procedures via access to JASDEC's network system, using ISO20022 XML messaging as the connection specifications.

## Transparency

### **Principle 23: Disclosure of Rules, Key Procedures, and Market Data**

*An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be public disclosed.*

#### **Key Consideration 1:**

**An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.**

#### Business Rules

The Business Rules and subordinate rules for each of JSCC's Clearing Businesses are fully disclosed on JSCC's website, in Japanese and English. The Business Rules comprehensively provide details under normal conditions of the responsibilities of Clearing Participants, Clearing Participant default procedures, responses to system failures, and emergency measures during natural disasters. Additionally, JSCC has established contingency plans which specify responses, procedures, and arrangements for each product eligible for clearing during times of emergency. All of these are disclosed on JSCC's website.

In cases where JSCC must add a revision to the Business Rules or subordinate rules, JSCC consults the advisory committee of the relevant Clearing Business regarding the details of the revision in advance, excluding insignificant revisions. See Principle 2 (Governance) for details on the advisory committees.

In cases where a revision to the Business Rules or subordinate rules would impact investors, JSCC compiles an outline of the proposed revision and submits it for public comment. This process allows Clearing Participants and investors to understand the aim of the revision and its impact.

#### General Information

JSCC's website is publicly accessible and provides the following information related to clearing and settlement:

- JSCC's background, company overview, and corporate philosophy;
- Governance;
- Risk Appetite Statement;
- Clearing Participant criteria and list of Clearing Participants;
- Clearing business framework;
- Details on eligible collateral, custody and investment status;
- Margin, Clearing Fund, and loss compensation framework;
- Participant default procedures;
- Statistical Information; and
- Clearing fees.

**Key Consideration 2:**

**An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participant's rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.**

Descriptions of JSCC's Clearing Business framework, including the claims and obligations between JSCC and Clearing Participants and operational procedures, are stipulated in the Business Rules and subordinate rules for each Clearing Business. JSCC's Business Rules and subordinate rules are publicly available via its website.

The details which compose the core of JSCC's Clearing Business framework are stipulated in the Business Rules and subordinate rules. When revising these rules, as in Key Consideration 1 of this Principle, JSCC provides the details of the revisions to interested parties via consultation with Clearing Business advisory committees and a public comment process.

Additionally, the Business Rules and subordinate rules stipulate the scope of matters that JSCC is able to determine at its discretion in the course of its Clearing Business operations.

JSCC provides a wide range of information to Clearing Participants, to enable Clearing Participants to evaluate the risks and costs pertaining to participation in JSCC, including the following:

- Eligible products for clearing and details of the requirements for clearing;
- Eligible collateral and applicable haircuts;
- Management of Clearing Participant default and measures to be taken for it, including available financial resources; and
- Loss Compensation Scheme (Risk Waterfall) for each Clearing Business.

This information is included in JSCC's Business Rules and subordinate rules, which are public documents. JSCC also provides the "Operational Procedures," which stipulate details for the operations of each Clearing Business, to Clearing Participants.

**Key Consideration 3:**

**An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.**

JSCC holds explanatory sessions for new Clearing Participants, to facilitate their understanding of the clearing framework and procedures before granting Clearing Qualifications. JSCC makes efforts to familiarize Clearing Participants with JSCC's rules and procedures in explanatory sessions on Clearing Businesses when required, such as when revising rules or introducing new products.

For the CDS, IRS, and OTC JGB Clearing Businesses, JSCC holds regular default management fire-drills, to familiarize Clearing Participants with the Clearing Participant default management procedures, which would apply to non-defaulting Clearing Participants.

To promote disclosure to its Clearing Participants, JSCC distributes a "Risk Profile Report" which contains key information related to risk management, including the status of collateral deposited by Clearing Participants and the status of the adequacy of loss compensation financial resources.

Clearing Participants' ongoing compliance with JSCC's rules and procedures demonstrates their understanding, and confirms that the rules and procedures are clear and comprehensive.

JSCC's Business Rules provide for issuing improvement orders when JSCC recognizes a

deficiency in a Clearing Participant's business execution structure. Through this, JSCC is capable of issuing corrective measures to the Clearing Participant demonstrating a deficiency in understanding of JSCC's rules and procedures and the risks pertaining to participation.

**Key Consideration 4:**

**An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.**

JSCC publicly discloses the clearing fee structure on its website. Rules relating to fees, including details of fee rates for each product and the details of discounts, are set forth in the rules for each of JSCC's Clearing Businesses.

In cases of revisions to the clearing fee structure, JSCC will consult with advisory committees, such as the Listed Products Management Committee, the CDS Management Committee, the IRS Management Committee, and the OTC JGB Management Committee, which are composed of the members including those from Clearing Participants, and conduct consultation procedures, including public disclosure of an outline of the revisions and publication of details of rule revisions on JSCC's website.

JSCC provides information on its system design, technology, and communication specifications to existing Clearing Participants and firms seeking to become Clearing Participants, thereby enabling such parties to estimate the costs related to participation.

**Key Consideration 5:**

**An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.**

This document is JSCC's disclosure pursuant to the CPSS-IOSCO "Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology." JSCC will update this disclosure document if there are any significant changes, or at a minimum every two years.

JSCC also publishes on its website, quantitative information pursuant to the "Public quantitative disclosure standards for central counterparties" published by CPMI-IOSCO.

Additionally, JSCC discloses statistical information for each of its Clearing Businesses in English and Japanese on its website. This information includes the following:

- Cleared volume and value for Listed Products;
- Cleared value and trade counts for CDS;
- Cleared value and trade counts for IRS; and
- Cleared volume, value and trade counts for OTC JGB.

JSCC discloses a wide range of other information in English and Japanese on its website. This information includes the following:

- Eligible products for Clearing;
- Clearing Participant qualification criteria;
- Existing Clearing Participants;
- Information about JSCC's clearing and settlement operations; and
- Outline of overall risk management system (including margin framework).

**Principle 24: Disclosure of Market Data by Trade Repositories**

*A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.*

Because JSCC does not provide functions as a TR, this principle does not apply.

## V. List of Publicly Available Information

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### **JSCC Business Rules**

<https://www.jpx.co.jp/jsc/en/rule.html>

### **JSCC Annual Report**

<https://www.jpx.co.jp/jsc/en/company/annual.html>

### **JSCC Management and Financial Information**

<https://www.jpx.co.jp/jsc/en/company/management-financial-information-2.html>

### **JSCC Company Profile**

<https://www.jpx.co.jp/jsc/en/company/profile.html>

### **JSCC Clearing Qualification Criteria and List of Clearing Participants**

<https://www.jpx.co.jp/jsc/en/participant.html>

### **JSCC Statistics**

-Listed Products

[https://www.jpx.co.jp/jsc/en/listed\\_products.html](https://www.jpx.co.jp/jsc/en/listed_products.html)

-Japanese Government Bonds

<https://www.jpx.co.jp/jsc/en/jgbcc.html>

-Credit Default Swaps

[https://www.jpx.co.jp/jsc/en/credit\\_default\\_swap.html](https://www.jpx.co.jp/jsc/en/credit_default_swap.html)

-Interest Rate Swaps

[https://www.jpx.co.jp/jsc/en/interest\\_rate\\_swap.html](https://www.jpx.co.jp/jsc/en/interest_rate_swap.html)

### **JSCC Clearing Fees**

-Listed Products (Cash Products)

<https://www.jpx.co.jp/jsc/en/cash/cash/fee.html>

-Listed Products (Listed Derivatives)

<https://www.jpx.co.jp/jsc/en/cash/futures/fee/derivativesfee.html>

-Japanese Government Bonds

<https://www.jpx.co.jp/jsc/en/cash/jgbcc/fee.html>

-Credit Default Swaps

<https://www.jpx.co.jp/jscc/en/cash/cds/fee.html>

-Interest Rate Swaps

<https://www.jpx.co.jp/jscc/en/cash/irs/fee.html>

**JSCC Clearing & Settlement**

<https://www.jpx.co.jp/jscc/en/cash.html>

**Japan Exchange Group (JPX)  
Tokyo Stock Exchange, Inc. (TSE)  
Osaka Exchange, Inc. (OSE)**

<https://www.jpx.co.jp/english/>

**Financial Instruments and Exchange Act**

<https://www.fsa.go.jp/common/law/fie01.pdf>

**Cabinet Office Ordinance on Financial Instruments Clearing Organization, etc.**

<http://www.japaneselawtranslation.go.jp/law/detail/?id=2486&vm=04&re=02&new=1>

**Comprehensive Guidelines for Supervision of Financial Market Infrastructures**

<https://www.fsa.go.jp/en/news/2014/20140327-1/01.pdf>

**Companies Act**

<http://www.japaneselawtranslation.go.jp/law/detail/?id=2035&vm=04&re=02>

**Civil Code**

<http://www.moj.go.jp/content/000056024.pdf>

**Act of Recognition of and Assistance for Foreign Insolvency Proceedings**

[http://www.japaneselawtranslation.go.jp/law/detail\\_main?vm=&id=1935](http://www.japaneselawtranslation.go.jp/law/detail_main?vm=&id=1935)

**Deposit Insurance Act**

<http://www.japaneselawtranslation.go.jp/law/detail/?id=956&vm=04&re=02&new=1>

**Trust Act**

<http://www.japaneselawtranslation.go.jp/law/detail/?id=1936&vm=04&re=02>

**Banking Act**

<http://www.japaneselawtranslation.go.jp/law/detail/?id=2196&vm=04&re=01&new=1>

**Act on Book-Entry Transfer of Company Bonds, Shares, etc.**

<http://www.japaneselawtranslation.go.jp/law/detail/?id=2451&vm=04&re=02&new=1>

**Bank of Japan**

<https://www.boj.or.jp/en/index.htm/>

**Bank of Japan Act**

<http://www.japaneselawtranslation.go.jp/law/detail/?id=92&vm=02&re=01>

**The Bank of Japan Policy on Oversight of Financial Market Infrastructures**

[https://www.boj.or.jp/en/announcements/release\\_2013/data/rel130312a.pdf](https://www.boj.or.jp/en/announcements/release_2013/data/rel130312a.pdf)

**Rules on Current Deposit Account (Japanese only)**

<https://www.boj.or.jp/paym/torihiki/touyo08.htm/>

**Japan Securities Depository Center, Inc.**

<https://www.jasdec.com/en/>

**Japan Securities Dealers Association**

<http://www.jsda.or.jp/en/>

**The Center for Financial Industry Information Systems (FISC)**

<https://www.fisc.or.jp/english/>

**Principles for Financial Market Infrastructures**

<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD377.pdf>

**Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology**

<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD396.pdf>

**Implementation monitoring of PFMI: Level 2 assessment report for central counterparties and trade repositories - Japan**

<http://www.bis.org/cpmi/publ/d127.htm>

**European Market Infrastructure Regulation (EMIR)**

[http://eur-lex.europa.eu/legal-content/EN/ALL/?ELX\\_SESSIONID=9hKITthNJ5HW5KnGDSpvrKNyRWRtyFKpwkTXvKHKG3LvCSFxph3!688603561?uri=CELEX:32012R0648](http://eur-lex.europa.eu/legal-content/EN/ALL/?ELX_SESSIONID=9hKITthNJ5HW5KnGDSpvrKNyRWRtyFKpwkTXvKHKG3LvCSFxph3!688603561?uri=CELEX:32012R0648)

**Commodity Exchange Act**

<https://www.law.cornell.edu/uscode/text/7/chapter-1>

**CFTC Regulation**

[http://www.ecfr.gov/cgi-bin/text-idx?sid=7c421620fdc60314ab8fd9de494af74e&c=ecfr&tpl=/ecfrbrowse/Title17/17tab\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?sid=7c421620fdc60314ab8fd9de494af74e&c=ecfr&tpl=/ecfrbrowse/Title17/17tab_02.tpl)

**Australian Corporations Amendment (Central Clearing and Single-Sided Reporting) Regulation 2015 -F2015L01411**

<https://www.comlaw.gov.au/Details/F2015L01411>

**Australian Corporations Regulations 2001-F2017C00162**

<https://www.legislation.gov.au/Details/F2017C00162>

**Securities and Futures Ordinance**

[https://www.elegislation.gov.hk/index/chapternumber?QS\\_CAP\\_NO=571&p0=1&TYPE=1&TYPE=2&TYPE=3&LANGUAGE=E#tag571](https://www.elegislation.gov.hk/index/chapternumber?QS_CAP_NO=571&p0=1&TYPE=1&TYPE=2&TYPE=3&LANGUAGE=E#tag571)

**Exchange Fund Ordinance**

[https://www.elegislation.gov.hk/index/chapternumber?QS\\_CAP\\_NO=66&p0=1&TYPE=1&TYPE=2&TYPE=3&LANGUAGE=E#tag66](https://www.elegislation.gov.hk/index/chapternumber?QS_CAP_NO=66&p0=1&TYPE=1&TYPE=2&TYPE=3&LANGUAGE=E#tag66)

**Financial Markets Infrastructure Act**

<https://www.admin.ch/opc/en/classified-compilation/20141779/201708010000/958.1.pdf>

## VI. Glossary

<b>API</b>	Application Programming Interface
<b>BCP</b>	Business Continuity Plan
<b>BOJ</b>	Bank of Japan
<b>CB</b>	Convertible Bonds
<b>CCO</b>	Chief Compliance Officer
<b>CCP</b>	Central Counterparty
<b>CDS</b>	Credit Default Swap
<b>CFTC</b>	The U.S. Commodity Futures Trading Commission
<b>CPSS</b>	The Committee on Payment and Settlement Systems
<b>CRO</b>	Chief Risk Officer
<b>CSD</b>	Central Securities Depository
<b>DVP</b>	Delivery Versus Payment
<b>EMIR</b>	European Market Infrastructure Regulation
<b>ESMA</b>	European Securities Market Authority
<b>ETF</b>	Exchange Traded Fund
<b>ETP</b>	Electronic Trading Platform
<b>FINMA</b>	Swiss Financial Market Supervisory Authority
<b>FIEA</b>	Financial Instruments and Exchange Act
<b>FISC</b>	The Center for Financial Industry Information Systems
<b>FMI</b>	Financial Markets Infrastructure
<b>FOS</b>	Fund Only Settlement
<b>HKTR</b>	The Over-the-counter Derivatives Trade Repository of the HKMA
<b>HKMA</b>	Hong Kong Monetary Authority
<b>IOSCO</b>	The International Organization of Securities Commissions
<b>ISMS</b>	Information Security Management System
<b>JFSA</b>	Japan Financial Services Agency
<b>JGB</b>	Japanese Government Bond
<b>JGBCC</b>	Japanese Government Bond Clearing Corporation
<b>JPX</b>	Japan Exchange Group, Inc.
<b>JPY</b>	Japanese Yen
<b>JSCC</b>	Japan Securities Clearing Corporation
<b>LIBOR</b>	London Interbank Offered Rate
<b>OSE</b>	Osaka Exchange, Inc.
<b>OTC</b>	Over the Counter
<b>PFMI</b>	Principles for Financial Market Infrastructure
<b>POMA</b>	Post Offset Margin Amount
<b>PTS</b>	Proprietary Trading System
<b>REIT</b>	Real Estate Investment Trust
<b>RPF</b>	Risk Parameter File
<b>RTGS</b>	Real-Time Gross Settlement
<b>SDR</b>	Swap Data Repository
<b>SEF</b>	Swap Execution Facility

<b>SFC</b>	Securities and Futures Commission
<b>SFO</b>	Securities and Futures Ordinance
<b>SSS</b>	Securities Settlement System
<b>STP</b>	Straight Through Processing
<b>SWIFT</b>	Society for Worldwide Interbank Financial Telecommunication
<b>TCCCP</b>	Third Country CCP
<b>TCP</b>	Transmission Control Protocol
<b>TR</b>	Trade Repository
<b>TSE</b>	Tokyo Stock Exchange, Inc.
<b>TSS</b>	Tosho System Service Co., Ltd.
<b>VaR</b>	Value-at-Risk

# JSCC RULES

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# Business Rules



## Japan Securities Clearing Corporation

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This English translation of the Business Rules has been prepared solely for reference purposes and shall not have any binding force. The original Japanese text shall be definitive when construing or interpreting the meaning of any provision.

**Business Rules**  
**(In effect as of January 30, 2017)**

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Chapter 1 General Provisions

## (Article 1 Purpose)

1 These Business Rules set forth the matters necessary for the Financial Instruments Obligation Assumption Business and related businesses and the businesses incidental thereto<sup>\*1</sup>, for which the subject contracts shall be the contracts stipulated in each Item of Paragraph 2 of Article 3<sup>\*2</sup>, and each of which is conducted by Japan Securities Clearing Corporation<sup>\*3</sup>.

(<sup>\*1</sup> hereinafter referred to as “Securities and Similar Contracts Clearing Business”)

(<sup>\*2</sup> hereinafter referred to as “Securities and Similar Contracts”)

(<sup>\*3</sup> hereinafter referred to as “JSCC”)

2 These Business Rules<sup>\*1</sup> shall apply only to the Securities and Similar Contract Clearing Business conducted by JSCC, and shall not apply to the Financial Instruments Obligation Assumption Business and the like conducted in relation to any contracts subject to clearing other than the Securities and Similar Contracts or any other businesses conducted by JSCC.

(<sup>\*1</sup> including any rules and regulations promulgated hereunder)

## (Article 2 Financial Instruments Obligation Assumption Business and Related Businesses)

JSCC shall engage in the Financial Instruments Obligation Assumption Business which covers the Securities and Similar Contracts conducted pursuant to these Business Rules and the business prescribed in Paragraph 1 of Article 156-6 of the Financial Instruments and Exchange Act (Act No.25 of 1948; hereinafter referred to as “the Act”) which relates to the foregoing.

## (Article 3 Contracts Subject to Clearing)

1 The financial instruments which are the subject of the contract<sup>\*1</sup> constituting the obligation subject to the Securities and Similar Contract Clearing Business conducted by JSCC shall be the financial instruments set forth in each Item provided below:

(<sup>\*1</sup> hereinafter referred to as “Contracts Subject to Clearing”)

(1) Stocks issued by domestic corporations<sup>\*1</sup>;

(<sup>\*1</sup> including stock acquisition right securities, preferred equity capital contribution securities<sup>\*1-1</sup> and capital contribution securities<sup>\*1-2</sup> issued by a domestic corporation)

(<sup>\*1-1</sup> referring to those issued by a cooperative-organization-type financial institution; the same applies hereinafter)

(<sup>\*1-2</sup> referring to those issued by a corporation established under a special law<sup>\*1-2-1</sup>)

(<sup>\*1-2-1</sup> excluding preferred equity capital contribution securities)

(2) Stocks issued by foreign corporations<sup>\*1</sup>;

(<sup>\*1</sup> including stock acquisition right securities issued by foreign a corporation and

- depository receipts for foreign stocks<sup>\*1-1</sup>)  
 (<sup>\*1-1</sup> referring to those which represent the rights in respect of the stock issued by a foreign corporation; the same applies hereinafter)
- (3) Investment trust beneficiary securities<sup>\*1</sup>, investment securities<sup>\*2</sup>, foreign investment trust beneficiary securities and foreign investment securities;  
 (<sup>\*1</sup> referring to the beneficiary securities of investment trusts; the same applies hereinafter)  
 (<sup>\*2</sup> including Investment securities acquisition right securities)
- (4) Beneficiary securities of beneficiary securities issuing trusts and beneficiary securities of foreign beneficiary securities issuing trusts<sup>\*1</sup>;  
 (<sup>\*1</sup> referring to securities or certificates which have the characteristics of beneficiary securities of beneficiary securities issuing trusts and issued by a foreign corporation; the same applies hereinafter)
- (5) Covered warrants<sup>\*1</sup>;  
 (<sup>\*1</sup> referring to the securities stipulated in Item 19 of Paragraph 1 of Article 2 of the Act; the same applies hereinafter)
- (6) Bonds; and
- (7) Standardized instruments which are created by a Financial Instruments Exchange for Market Transactions of Derivatives by standardizing interest rates, maturity periods and/or other conditions of Financial Instruments
- 2 The Contracts Subject to Clearing<sup>\*1</sup> shall consist of the contracts set forth in each of the following Items:  
 (<sup>\*1</sup> limited to the contracts prescribed by JSCC)
- (1) Buying and selling securities in a market prescribed in (a) or (b) below<sup>\*1</sup> which is operated and managed by a market operator<sup>\*2</sup> designated by JSCC;  
 (<sup>\*1</sup> hereinafter referred to as "Designated Financial Instruments Market")  
 (<sup>\*2</sup> hereinafter referred to as "Designated Market Operator")
- (a) Financial Instruments Exchange Market
- (b) Proprietary Trading System<sup>\*1</sup>  
 (<sup>\*1</sup> referring to an institution similar to a Financial Instruments Exchange Market, which is conducted through the electronic data processing system stipulated in Item 10 of Paragraph 8 of Article 2 of the Act; the same applies hereinafter)
- (2) Security Option Contract<sup>\*1</sup> in a Designated Financial Instruments Market;  
 (<sup>\*1</sup> referring to the contract stipulated in Item 3 of Paragraph 21 of Article 2 of the Act in respect of buying and selling stock; the same applies hereinafter)
- (3) JGB Futures Contract<sup>\*1</sup> in a Designated Financial Instruments Market;  
 (<sup>\*1</sup> referring to the securities futures contract stipulated in Item 1 of Paragraph 21 of Article 2 of the Act on standardized instruments in respect of Japanese Government Bonds, or the securities futures contract stipulated in Item 2 of the same Paragraph in

respect of the price of the relevant standardized instruments; the same applies hereinafter)

- (4) Option Contract on JGB Futures\*<sup>1</sup> in a Designated Financial Instruments Market;  
(\*<sup>1</sup> referring to the securities option contract stipulated in Item 3 of Paragraph 21 of Article 2 of the Act in respect of JGB Futures Contract; the same applies hereinafter)
- (5) Index Futures Contract\*<sup>1</sup> in a Designated Financial Instruments Market;  
(\*<sup>1</sup> referring to the index futures contract stipulated in Item 2 of Paragraph 21 of Article 2 of the Act; the same applies hereinafter)
- (6) Index Option Contract\*<sup>1</sup> in a Designated Financial Instruments Market;  
(\*<sup>1</sup> referring to the index option contract stipulated in Item 3 of Paragraph 21 of Article 2 of the Act and prescribed by the Designated Market Operator as corresponding to a contract stipulated in Item 2 of the same Paragraph; the same applies hereinafter)
- (7) Lending and borrowing\*<sup>1</sup> of cash, Stocks And The Like\*<sup>2</sup> that are necessary for settling the buying/selling set forth in Item (1), and the buying/selling of the underlying securities resulting from the exercise of the option under Security Option Contract;  
(\*<sup>1</sup> limited to the lending made by the Designated Securities Finance Company to a Clearing Participant in accordance with the Rules for Money/Securities Loan Transaction through the settlement system of the Designated Market Operator; hereinafter referred to as the “Money/Securities Loan Transaction”)  
(\*<sup>2</sup> referring to the stocks and the like stipulated in the Lending Rules for Lending/Borrowing Transaction\*<sup>2-1</sup> prescribed by the Securities Finance Company\*<sup>2-2</sup> which the Designated Market Operator designated and notified to JSCC as the entity to conduct the operations prescribed in Paragraph 1 of Article 156-24 of the Act through the settlement system of that Market; the same applies hereinafter in this Article)  
(\*<sup>2-1</sup> herein referred to simply as the “Rules for Money/Securities Loan Transaction”)  
(\*<sup>2-2</sup> must be a Clearing Participant\*<sup>2-2-1</sup>; herein referred to as the “Designated Securities Finance Company”)  
(\*<sup>2-2-1</sup> referring to the Clearing Participant prescribed in Article 5; the same applies hereinafter in this Article and the following Article)
- (8) Lending and borrowing of Stocks And The Like that is necessary for the Money/Securities Loan Transaction\*<sup>1</sup>;  
(\*<sup>1</sup> limited to the lending made by a Clearing Participant to the Designated Securities Finance Company in accordance with the Rules for Money/Securities Loan Transaction through the settlement system of the Designated Market Operator; hereinafter referred to as the “Securities Lending Transaction”)
- (9) Transfer of the Collateral, etc.\*<sup>1</sup> for the Money/Securities Loan Transaction or the Securities Lending Transaction;  
(\*<sup>1</sup> referring to the stocks and the like collateralizing a cash loan, and the cash

collateralizing a stock loan and the like under the Money/Securities Loan Transaction and the cash collateralizing a stock borrowing and the like under the Securities Lending Transaction, both of which are prescribed by the Rules for Money/Securities Loan Transaction; the same applies hereinafter)

(10) Buying and selling resulting from Buy-In<sup>\*1</sup>; and

(\*1 referring to the Buy-In prescribed in Article 63; the same applies hereinafter until Article 54)

(11) Exchange FX Contract<sup>\*1</sup>.

(\*1 referring to the contract set forth in Item 2 of Paragraph 21 of Article 2 of the Act which relates to currency prices; the same applies hereinafter)

3 In these Business Rules<sup>\*1</sup>, the term “stocks and other securities” means, depending on their types, the stocks and other securities stipulated in Paragraph 1 of Article 2 of the Act and the rights which are deemed to constitute such stocks and other securities under the provisions of Paragraph 2 of such Article.

(\*1 including other rules that are prescribed pursuant to these Business Rules)

(Article 4 Non-business Days)

1 JSCC shall have the days set forth in each of the following Items as its holidays<sup>\*1</sup> in respect of the Contracts Subject to Clearing set forth in Item (1) through Item (10) of Paragraph 2 of the preceding Article:

(1) Sundays;

(2) National holidays;

(3) When a national holiday falls on Sunday, the immediately following day which is not a national holiday;

(4) The day which immediately follows and at the same time immediately precedes national holidays;

(5) Saturdays;

(6) The first three days of each year; and

(7) December 31.

(\*1 hereinafter simply referred to as “Non-business Days”)

2 JSCC shall have the days set forth in each of the following Items as its Non-business Days in respect of the Contract Subject to Clearing set forth in Item (11) of Paragraph 2 of the preceding Article<sup>\*1</sup>:

(1) Sundays;

(2) Saturdays;

(3) January 1; and

(4) When January 1 falls on Sunday, the immediately following day.

(\*1 hereinafter referred to as “FX Non-business Days”)

3 Notwithstanding the provisions of the preceding two Paragraphs, when the trading hours or

trading sessions prescribed by the Designated Market Operator are included in any of the days set forth in each Item of the preceding two Paragraphs, JSCC shall conduct the Securities and Similar Contract Clearing Business during those trading hours.

- 4 JSCC may, when it deems necessary, have extraordinary Non-business Days or FX Non-business Days.
- 5 JSCC may, when it deems necessary, extraordinarily suspend or conduct all or part of the operation with respect to the Securities and Similar Contract Clearing Business.
- 6 In the case of the preceding two Paragraphs, JSCC shall notify in advance Clearing Participants and Designated Market Operators to that effect.

Chapter 2 Clearing ParticipantsSection 1 General Clauses

(Article 5 Clearing Participants)

1 A Clearing Participant means a company which has obtained JSCC's Clearing Qualification.

2 The Clearing Qualification prescribed in the preceding Paragraph consists of four categories of qualifications: Securities Clearing Qualification; JGB Futures Clearing Qualification; Index Futures Clearing Qualification; and FX Clearing Qualification. Each of these qualifications is prescribed in the following Items:

(1) Securities Clearing Qualification is the qualification to become a counterparty in JSCC's Financial Instruments Obligation Assumption Business performed with respect to the Contracts Subject to Clearing listed in Item (1) and Item (7) through Item (10) of Paragraph 2 of Article 3, and to become a counterparty in the buying/selling transaction in respect of the underlying securities resulting from the exercise of the option under Security Option Contract;

(2) JGB Futures Clearing Qualification is the qualification to become a counterparty in JSCC's Financial Instruments Obligation Assumption Business performed with respect to the Contracts Subject to Clearing listed in Item (3) and Item (4) of Paragraph 2 of Article 3;

(3) Index Futures Clearing Qualification is the qualification to become a counterparty in JSCC's Financial Instruments Obligation Assumption Business performed with respect to the Contracts Subject to Clearing listed in Item (2), Item (5) and Item (6) of Paragraph 2 of Article 3; and

(4) FX Clearing Qualification is the qualification to become a counterparty in JSCC's Financial Instruments Obligation Assumption Business performed with respect to the Contracts Subject to Clearing listed in Item (11) of Paragraph 2 of Article 3.

3 In these Business Rules, a company that has obtained Securities Clearing Qualification prescribed in Item (1) of the immediately preceding Paragraph is referred to as "Securities Clearing Participant", a company that has obtained JGB Futures Clearing Qualification prescribed in Item (2) of said Paragraph is referred to as "JGB Futures Clearing Participant", a company that has obtained Index Futures Clearing Qualification prescribed in Item (3) of said Paragraph is referred to as "Index Futures Clearing Participant", and a company that has obtained FX Clearing Qualification prescribed in Item (4) of said Paragraph is referred to as "FX Clearing Participant".

4 With regard to JSCC's Securities and Similar Contract Clearing Business, each category of the Clearing Qualification prescribed in each Item of Paragraph 2 shall be classified into two types of qualifications: one is the clearing qualification that does not authorize the Clearing Participant to operate the Brokerage for Clearing of Securities, etc.\*1; and the other is the

clearing qualification that authorizes the Clearing Participant to operate the Brokerage for Clearing of Securities in accordance with Chapter 3<sup>\*2</sup>. A Clearing Participant with the Principal Clearing Qualification shall be referred to as a Principal Clearing Participant, and a Clearing Participant with the Agency Clearing Qualification shall be referred to as an Agency Clearing Participant.

(\*<sup>1</sup> hereinafter referred to as the "Principal Clearing Qualification")

(\*<sup>2</sup> hereinafter referred to as the "Agency Clearing Qualification")

Section 2 Obtaining Clearing Qualification

(Article 6 Application and Approval for Clearing Qualification)

1 A Financial Instruments Business Operator may apply to JSCC, according to the category of Financial Instruments Business Operator shown in each of the following Items, for the Clearing Qualification prescribed in each Item below, separately by each type of Clearing Qualification it intends to obtain, by specifying whether it applies for the Principal Clearing Qualification or the Agency Clearing Qualification, in accordance with the relevant rules of JSCC. In such case, when the Clearing Qualification to be obtained is Index Futures Clearing Qualification<sup>\*1</sup>, such Clearing Qualification may be applied for only by an entity which either holds Securities Clearing Qualification or has designated a Designated Securities Clearing Participant<sup>\*1</sup>:

(<sup>\*1</sup>except for the case where a Financial Instruments Business Operator which does not have trading qualification relating to Security Option Contracts intends to apply for Index Futures Clearing Qualification)

(<sup>\*2</sup>referring to a Clearing Participant<sup>\*1-1</sup> (i) which has been designated with respect to a transaction relating to Securities Clearing Qualification as an entity to which the Brokerage for Clearing of Securities, etc. is always commissioned in accordance with the rules of the Designated Market Operator by an entity<sup>\*1-2</sup> which is a trading participant<sup>\*1-3</sup> or a member of a Designated Market Operator, but (ii) which does not have JSCC's Clearing Qualification corresponding to the category of such trading qualification<sup>\*1-4</sup> or membership that such entity holds)

(<sup>\*2-1</sup> hereinafter referred to as "Designated Clearing Participant")

(<sup>\*2-2</sup> hereinafter referred to as "Non-Clearing Participant")

(<sup>\*2-3</sup> in the case where the Designated Market Operator is an institution operating Proprietary Trading System, referring to an entity which is qualified to participate in buying and selling securities; the same applies hereinafter)

(<sup>\*2-4</sup> in the case where the Designated Market Operator is an institution operating Proprietary Trading System, referring to the qualification to participate in buying and selling securities; the same applies hereinafter)

(1) A Financial Instruments Business Operator which has obtained registration of the operation with respect to the acts prescribed in Item 1 of Paragraph 1 of Article 28 of the Act:

Securities Clearing Qualification, JGB Futures Clearing Qualification or Index Futures Clearing Qualification

(2) A Financial Instruments Business Operator which has obtained registration of a business relating to the act prescribed in Item 3 of Paragraph 2 of Article 28 of the Act<sup>\*1</sup>

(<sup>\*1</sup>in the case of a Financial Instruments Business Operator which intends to be commissioned an Exchange FX Contract, registration of such business as well as the

business relating to the act prescribed in Paragraph 5 of the said Article):

FX Clearing Qualification

2 A Registered Financial Institution\*<sup>1</sup> may apply to JSCC, according to the category of the Clearing Qualification shown below, separately by each type of Clearing Qualification it intends to obtain, by specifying whether it applies for such category of Clearing Qualification as the Principal Clearing Qualification or the Agency Clearing Qualification, in accordance with the relevant rules of JSCC:

(\*<sup>1</sup>referring to the Registered Financial Institution prescribed in Paragraph 11 of Article 2 of the Act; the same applies hereinafter)

(1) Securities Clearing Qualification or Index Futures Clearing Qualification\*<sup>1</sup>; or

(\*<sup>1</sup> Agency Clearing Qualification only)

(2) JGB Futures Clearing Qualification or FX Clearing Qualification.

3 A Securities Finance Company may apply to JSCC for Securities Clearing Qualification in accordance with the relevant rules of JSCC specifying its intention to apply for the Principal Clearing Qualification which is subject to the condition that the scope of the Contracts Subject to Clearing be limited to the transactions listed in each of Item (7) through Item (10) of Paragraph 2 of Article 3.

4 When an application for Clearing Qualification has been filed pursuant to the provisions of the preceding three Paragraphs and JSCC deems as a result of examination that the applicant for the Clearing Qualification is appropriate to be qualified, JSCC shall approve the relevant Clearing Qualification.

5 Notwithstanding the provisions of Paragraphs 1 through 3, a Specified Successor Financial Institution\*<sup>1</sup> may apply to JSCC for a Clearing Qualification according to the procedures as prescribed by JSCC. If such application is made, JSCC may approve the acquisition of the relevant Clearing Qualification by such applicant.

(\*<sup>1</sup> referring to a Specified Successor Financial Institution prescribed in Item (5) of Paragraph 3 of Article 126-34 of the Deposit Insurance Act (Act No. 34 of 1971); the same applies hereinafter)

6 The approval set forth in the preceding two Paragraphs shall be granted designating the date on which the applicant is to obtain the Clearing Qualification.

7 In the case where a new applicant for Securities Clearing Qualification simultaneously applies for Index Futures Clearing Qualification, the latter provision of Paragraph 1 shall be applied by deeming that the applicant has Securities Clearing Qualification. Also, in the case where a new applicant for Index Futures Clearing Qualification is expected to designate a Designated Securities Clearing Participant simultaneously with the application for such Clearing Qualification, the latter provision of Paragraph 1 shall be applied by deeming that the applicant has designated a Designated Securities Clearing Participant.

(Article 7 Criteria for Clearing Qualification)

1 The examination stipulated in Paragraph 4 of the immediately preceding Article with respect to the application set forth in Paragraph 1 or Paragraph 2 of said Article shall be conducted on the matters described in the following Items in respect of the applicant for Clearing Qualification and other matters which are deemed to be necessary for the operation of the Securities and Similar Contract Clearing Business:

(1) Management Structure

The applicant has a sound management structure (e.g., it is not controlled or influenced by a person who is deemed inappropriate taking JSCC's operation of the Securities and Similar Contract Clearing Business into account) such that the credibility of JSCC's Securities and Similar Contract Clearing Business among the general public can be expected to be sufficiently protected;

(2) Financial Basis

The applicant is expected to fulfill the requirements set forth in either of A) or B) below in accordance with the classification of A) and B), and to have stable profitability as Clearing Participant by the date on which the applicant is to obtain the Clearing Qualification;

A) Financial Instruments Business Operator:

- (a) The amount of its stated capital is not less than 300 million yen;
- (b) The amount of its net worth is not less than 2 billion yen<sup>\*1</sup> and is larger than its stated capital;

(\*1 20 billion yen in the case of the Agency Clearing Qualification)

- (c) The Capital-to-Risk Ratio<sup>\*1</sup> is more than 200 percent; and

(\*1 in the case of an entity which does not engage in the act set forth in Item 1 of Paragraph 1 of Article 28 of the Act as business, referring to the ratio determined by applying *mutatis mutandis* Paragraph 1 of Article 46-6 of the Act; the same applies hereinafter)

- (d) In the case of a Special Financial Instruments Business Operator<sup>\*1</sup>, the consolidated Capital-to-Risk Ratio is more than 200 percent.

(\*1 limited to a person filed the notification under Paragraph 2 of Article 57-5 of the Act; the same applies hereinafter)

B) Registered Financial Institutions:

- (a) The amount of its stated capital or the total amount of capital contribution<sup>\*1</sup> is not less than 300 million yen;

(\*1 in the case of a mutual company, the total amount of the foundation fund<sup>\*1-1</sup>)

(\*1-1 including the amount of reserve for redemption of the foundation fund)

- (b) The amount of its net assets is not less than 2 billion yen<sup>\*1</sup> and is larger than its stated capital or total amount of capital contribution<sup>\*2</sup>;

(\*1 20 billion yen in the case of the Agency Clearing Qualification)

(\*2 in the case of a mutual company, the total amount of the foundation fund<sup>\*2-1</sup>)

(\*2-1 including the amount of reserve for redemption of the foundation fund)

- (c) In the case of the Registered Financial Institution subject to Uniform International Standards, , it satisfies the requirements set forth in a. to c. below (in the case where it is a foreign bank, the requirements equivalent thereto):
- a. Its non-consolidated or consolidated Common Equity Tier 1 ratio<sup>\*1</sup> exceeds 4.5 percent;  
(\*<sup>1</sup> for a institution which operates with investment from its members, its non-consolidated or consolidated common capital contribution Tier 1 ratio; the same shall apply hereinafter)
  - b. Its non-consolidated or consolidated Tier 1 ratio exceeds 6 percent; and
  - c. Its non-consolidated or consolidated Total Capital ratio exceeds 8 percent; and
- (d) In the case of a Registered Financial Institution other than those subject to Uniform International Standards, foreign banks and insurance companies<sup>\*1</sup>, its non-consolidated or consolidated capital adequacy ratio under the domestic standards exceeds 4 percent; and  
(\*<sup>1</sup> hereinafter referred to as “Financial Institution subject to Japanese Standard”)
- (e) In the case where the Registered Financial Institution is an insurance company, its non-consolidated or consolidated solvency margin ratio exceeds 400 percent.

### (3) Business Execution Structure

The applicant has an appropriate structure for business execution regarding the settlement of the Contracts Subject to Clearing in respect of the assumption of obligations set forth in Article 46<sup>\*1</sup>; the management of the risk of loss; and the compliance with the Laws and Regulations<sup>\*2</sup>, dispositions of the administrative agencies based on the Laws and Regulations, these Business Rules and other rules.

(\*<sup>1</sup> including buying/selling the underlying securities resulting from the exercise of the option under Security Option Contract, JGB Futures Contract resulting from the exercise of the option under Option Contract on JGB Futures prescribed in Item (4) of Paragraph 2 of Article 3, the transaction resulting from the exercise of the option under Index Option Contract prescribed in Item (6) of said Paragraph, the transaction with respect to the obligation which is newly incurred as a result of the completion of the Give-up prescribed in Article 46-2, and the securities borrowing/lending pursuant to the provisions of Article 64; hereinafter referred to as “Contracts for Clearing”)

(\*<sup>2</sup> referring to the Act and related laws and regulations; the same applies hereinafter)

2 The examination stipulated in Paragraph 4 of the immediately preceding Article with respect to the application set forth in Paragraph 3 of said Article shall be conducted on the matters described in the following Items in respect of the applicant for Clearing Qualification and other matters which are deemed necessary for the operation of the Securities and Similar Contract Clearing Business:

## (1) Financial Basis

The applicant is expected to fulfill the requirements set forth below and to have stable profitability as Clearing Participant by the date on which it is to obtain the Clearing Qualification:

- A) The amount of its stated capital is not less than 100 million yen;
- B) The amount of its net assets is not less than 2 billion yen and is larger than its stated capital; and

(2) The matters set forth in Item (1) and Item (3) of the preceding Paragraph.

## (Article 8 Completion of Procedures for Obtaining Clearing Qualification)

1 When JSCC has approved Clearing Qualification pursuant to the provisions of Paragraph 4 of Article 6, JSCC shall cause the applicant for the Clearing Qualification to deposit a clearing fund and complete other procedures for obtaining the Clearing Qualification as prescribed by JSCC by the day<sup>\*1</sup> which immediately precedes the date designated by JSCC pursuant to the provisions of Paragraph 6 of said Article.

(\*1 if such day falls on a Non-business Day, the day shall be the immediately preceding business day; the same applies hereinafter except for Item (2) and Item (4) of Paragraph 3 of Article 64)

2 When the applicant<sup>\*1</sup> did not complete the procedures set forth in the preceding Paragraph by the day immediately preceding the date designated by JSCC pursuant to the provisions of Paragraph 6 of Article 6, the application for the Clearing Qualification shall be deemed to have been withdrawn.

(\*1 Excluding an applicant who is a Specified Successor Financial Institution)

3 When JSCC approves the Clearing Qualification pursuant to Paragraph 5 of Article 6, JSCC shall have the applicant for the Clearing Qualification deposit Clearing Funds and follow other procedures for acquisition of Clearing Qualification as required by JSCC.

## (Article 9 Date of Obtaining Clearing Qualification)

1 When the applicant for Clearing Qualification has completed the procedures set forth in Paragraph 1 or 3 of the preceding Article<sup>\*1</sup>, JSCC shall grant the Clearing Qualification in respect of the relevant application on the date designated by JSCC pursuant to the provisions of Paragraph 6 of Article 6.

(\*1 in respect of the procedures under Paragraph 3 of the preceding Article, the provisions of this Paragraph shall apply only for the procedures which JSCC requires the applicant to follow by the date designated by JSCC pursuant to the provisions of Paragraph 6 of Article 6)

2 When JSCC grants the applicant Clearing Qualification pursuant to the preceding Paragraph, JSCC shall notify to that effect to each Clearing Participant having the Clearing Qualification of the same category and to each Designated Market Operator which operates the Financial Instruments Market with respect to the Contracts Subject to Clearing

pertaining to that category of the Clearing Qualification.

(Article 10 Handling of Unsettled Contracts When Non-Clearing Participant Obtains Clearing Qualification)

When a Non-Clearing Participant becomes a Clearing Participant by obtaining the Clearing Qualification corresponding to such trading qualification or membership pursuant to Paragraph 1 of the preceding Article, such Non-Clearing Participant shall take over its unsettled Contracts for Clearing, which are pursuant to the commissions of the Brokerage for Clearing of Securities, etc., from the Designated Clearing Participant.

(Article 10-2 Change to Category of Clearing Qualification)

Provisions of Paragraph 1, Paragraph 2, Paragraph 4 and Paragraph 5 of Article 6, Article 7, Article 9, Paragraph 2 of Article 23 and Article 26 shall apply *mutatis mutandis* to the case when a Clearing Participant changes the category of Clearing Qualification held by it. In such case, the phrase “apply for Clearing Qualification” in Paragraph 1, Paragraph 2 and Paragraph 4 of Article 6 shall be deemed to be “apply for change to the category of Clearing Qualification”, the phrase “applicant for Clearing Qualification” in the Paragraph 4 of Article 6 and Article 7 and Article 9 shall be deemed to be “applicant for change to the category of Clearing Qualification”, the phrase “date on which the applicant is to obtain the Clearing Qualification” in Paragraph 5 of Article 6 and Item (2) of Paragraph 1 of Article 7 shall be deemed to be “date on which the applicant is to change the category of the Clearing Qualification”, the phrase “grant the Clearing Qualification” in Paragraph 1 of Article 9 shall be deemed to be “change the category of the Clearing Qualification”, the phrase “grants the applicant Clearing Qualification” in Paragraph 2 of such Article shall be deemed to be “changes the category of the Clearing Qualification”, the phrase “applies for renouncing” in Paragraph 2 of Article 23 shall be deemed to be “applies for change to the category of Clearing Qualification to Principal Clearing Qualification”, and the word “renunciation” in Article 26 shall be deemed to be “change to the category” respectively.

Section 3 Obligation of Clearing Participants

## (Article 11 Conclusion of Clearing Participant Agreement)

A Clearing Participant shall enter into the Clearing Participant Agreement prescribed by JSCC with JSCC.

## (Article 12 Clearing Participant's Representative)

1 A Clearing Participant shall, in accordance with the rules of JSCC, register with JSCC in advance an individual, among its representative directors or representative executive officers\*<sup>1</sup>, who is appropriate to represent the Clearing Participant vis-à-vis JSCC as the Clearing Participant's representative.

(\*<sup>1</sup>if Clearing Participant is a foreign Financial Instruments Business Operator or a foreign bank, from among its representatives in Japan holding a position at least equal to a director or an executive officer)

2 Only Clearing Participant's representative shall represent the Clearing Participant vis-à-vis JSCC; provided, however, that as for daily routine operations, a Clearing Participant may have a deputy for daily routine operations engaging in those operations specifying in advance the scope of such operations and registering such person with JSCC.

## (Article 13 Person in Charge of Settlement Operation)

A Clearing Participant shall designate an individual from among its directors, officers or employees to be in charge of supervising the operation of the settlement of Contracts for Clearing, and register such individual with JSCC in accordance with the rules of JSCC.

## (Article 14 Cooperative or Controlling Relationship with Directors, Officers, or Other Persons)

1 When JSCC deems that a cooperative or controlling relationship with a director, officer or other person of a Clearing Participant is inappropriate taking into account JSCC's operation of the Securities and Similar Contract Clearing Business, JSCC may conduct a hearing to the Clearing Participant and request for a change presenting the reason therefore; provided, however, that if the Clearing Participant submits a written statement, such submission may substitute the hearing.

2 The procedures of the hearing prescribed in the preceding Paragraph shall be in accordance with the rules of JSCC.

3 When the Clearing Participant refuses the hearing set forth in Paragraph 1 without a justifiable reason, JSCC may request for the change set forth in said Paragraph without a hearing.

4 When the Clearing Participant deems that the request for a change pursuant to Paragraph 1 is unwarranted, the Clearing Participant may file a petition in writing against such request with JSCC presenting the reason therefor within 10 days after the receipt of the notice of

the request for a change.

5 When JSCC receives the petition set forth in the preceding Paragraph, it shall convene a meeting of its board of directors without delay.

6 If, at the meeting of the board of directors set forth in the preceding Paragraph, it was deemed appropriate to modify or withdraw the request for a change set forth in Paragraph 1, such request for a change shall be immediately modified or withdrawn.

(Article 15 Payment of Fees by Clearing Participant)

A Clearing Participant shall pay the fees prescribed by the rules of JSCC to JSCC in accordance with those rules.

(Article 15-2 Deposit of Initial Margin)

1 A Clearing Participant shall deposit with JSCC, in accordance with the rules of JSCC, the initial margin, by each category prescribed in each of the following Items, for the purpose of ensuring performance of its obligations owed to JSCC:

- (1) An initial margin relating to Securities Clearing Qualification; and
- (2) An initial margin relating to JGB Futures Clearing Qualification.

2 When the deposited balance of the initial margin falls short of the required amount of the initial margin as prescribed by the rules of JSCC, the Clearing Participant shall deposit with JSCC an amount at least equal to such shortfall by 2 P.M. on the day<sup>\*1</sup> which immediately follows the day on which such shortfall occurs.

(\*1 if such day falls on a Non-business Day, it shall be the immediately following business day; the same applies hereinafter)

3 Cash may be deposited as initial margin, but only in any of the currencies designated by JSCC. In this case, the appraisal value of the cash initial margin in a currency other than Japanese yen shall be the amount equal to the value of cash in that currency converted to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of that currency in the Tokyo foreign exchange market on the day which is two days before the day on which the initial margin is deposited<sup>\*1</sup> multiplied by a certain rate determined by JSCC.

(\*1 if such day falls on a Non-business Day, it shall be the immediately following business day; the same applies hereinafter)

4 Securities<sup>\*1</sup> may be deposited in lieu of cash as initial margin in accordance with the rules of JSCC.

(\*1 limited to the securities which are deemed appropriate by JSCC taking the liquidity and other factors into account)

5 The substituting price of the securities stipulated in the preceding Paragraph shall be calculated by multiplying the market price, as determined by JSCC,<sup>\*1</sup> as of the day<sup>\*1</sup> which precedes the date of the deposit by two days, by a certain rate determined by JSCC<sup>\*2</sup>; provided, however, that JSCC may extraordinarily change the substituting price, when

JSCC deems it particularly necessary to do so, such as in the case of an excessive fluctuation in the market.

(\*<sup>1</sup> in the case where the applicable securities are foreign government bonds<sup>\*1-1</sup>, an amount equal to their market price, converted to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of the currency used for appraisal of each foreign government bonds in the Tokyo foreign exchange market on the day which is two days before the day on which the Margin is deposited; the same applies hereinafter)

(\*<sup>1-1</sup> referring to the securities listed in Item (17) of Paragraph 1 of Article 2 of the Act that have characteristics described in Item (1) of Paragraph 1 of Article 2 of the Act)

(\*<sup>2</sup> when a Clearing Participant utilizes the foreign book-entry transfer institution<sup>\*2-1</sup> designated by JSCC for the deposit of such securities, the value determined pursuant to the provisions of the contract between the relevant Clearing Participant, JSCC and the relevant foreign book-entry transfer institution; the same applies hereinafter)

(\*<sup>2-1</sup> referring to a person engaging in the book-entry transfer business or business of custody or book-entry transfer of bonds in a foreign country in accordance with laws and regulations of a foreign country)

6 In addition to the provisions of the preceding two Paragraphs, matters concerning the securities to be deposited in lieu of cash as initial margin shall be prescribed by JSCC.

(Article 15-3 Intraday Deposit of Initial Margin relating to Securities Clearing Qualification)

- 1 If an event occurs which is prescribed by JSCC as an event that the market of transaction relating to Securities Clearing Qualification has shown excessive fluctuation during any day session or if JSCC otherwise determines it necessary to do so, when the deposited balance of the initial margin relating to Securities Clearing Qualification deposited with JSCC falls short of the required amount of initial margin (the intraday amount) relating to Securities Clearing Qualification as prescribed by the rules of JSCC, the relevant Clearing Participant shall additionally deposit with JSCC an amount at least equal to such shortfall by 4:00 P.M. of the same day.
- 2 Notwithstanding the provisions of the preceding Paragraph, a Clearing Participant with respect to which the required amount of initial margin (the intraday amount) relating to Securities Clearing Qualification minus the required amount of initial margin relating to Securities Clearing Qualification set forth in Paragraph 2 of the preceding Article is less than 30,000,000 yen shall not be obligated to make additional deposit of the initial margin relating to Securities Clearing Qualification as required under the preceding Paragraph.
- 3 When JSCC causes to be made an additional deposit of initial margin relating to Securities Clearing Qualification pursuant to the provisions of Paragraph 1, it shall notify the relevant Clearing Participant to such effect promptly after 11:00 A.M. of the same day.

(Article 15-4 Increase in Required Amount of Initial Margin relating to Securities Clearing

## Qualification)

- 1 If the Risk Amount<sup>\*1</sup> considered to be attached to Unsettled Contracts<sup>\*2</sup> in transactions relating to Securities Clearing Qualification of a Clearing Participant exceeds Margin Increase Trigger Base Amount<sup>\*3</sup>, JSCC may increase the required amount of initial margin relating to Securities Clearing Qualification as prescribed by the rules of JSCC.  
(\*1 referring to the amount prescribed by the rules of JSCC; the same applies in this Article.)  
(\*2 referring to the contracts which remain unsettled; the same applies hereinafter.)  
(\*3 referring to the amount prescribed by the rules of JSCC.)
- 2 The Risk Amount set forth in the preceding Paragraph shall be calculated for transactions relating to Securities Clearing on each business day and after the close of the morning session on each business day, and JSCC will determine whether to increase the required amount of initial margin relating to Securities Clearing Qualification based on the calculation result of such Risk Amount.
- 3 If, due to an increase of the required amount of initial margin relating to Securities Clearing Qualification as a result of the calculation of the Risk Amount for a business day as set forth in the preceding Paragraph, the deposited balance of initial margin relating to Securities Clearing Qualification deposited by a Clearing Participant with JSCC falls short of the required amount of initial margin relating to Securities Clearing Qualification after the increase, the relevant Clearing Participant shall additionally deposit with JSCC an amount at least equal to such shortfall by 2:00P.M. on the next day following the day such shortfall occurred.
- 4 If, due to an increase of the required amount of initial margin relating to Securities Clearing Qualification as a result of the calculation of the Risk Amount after the close of the morning session on a business day as set forth in Paragraph 2, the deposited balance of initial margin relating to Securities Clearing Qualification deposited by a Clearing Participant with JSCC falls short of the required amount of initial margin relating to Securities Clearing Qualification after the increase, the relevant Clearing Participant shall additionally deposit with JSCC an amount at least equal to such shortfall by 4:00P.M. on the same day.

## (Article 16 Deposit of Clearing Fund)

- 1 A Clearing Participant shall deposit with JSCC, in accordance with the rules of JSCC, the clearing funds, by each category prescribed in each of the following Items, for the purpose of ensuring performance of its obligations owed to JSCC, and applying to compensation for any loss suffered by JSCC as set forth in these Business Rules in the event of JSCC acknowledging default, etc. of any other Clearing Participant:
  - (1) A clearing fund relating to Securities Clearing Qualification;
  - (2) A clearing fund relating to JGB Futures Clearing Qualification;
  - (3) A clearing fund relating to Index Futures Clearing Qualification; and
  - (4) A clearing fund relating to FX Clearing Qualification<sup>\*1</sup>.

(\*1 hereinafter referred to as “FX Clearing Fund”)

2 When the deposited balance of the clearing fund set forth in the immediately preceding Paragraph falls short of the required amount of the clearing fund as prescribed by the rules of JSCC, the Clearing Participant shall deposit with JSCC an amount at least equal to such shortfall by 2 P.M. on the day which immediately follows the day on which such shortfall occurs.

3 A Clearing Participant must deposit the amount determined by JSCC in respect of the clearing fund as set forth in Paragraph 1\*1 in Japanese yen cash.

(\*1 hereinafter referred to as “Clearing Fund Cash Requirement”)

4 A Clearing Participant may deposit an amount exceeding the Clearing Fund Cash Requirement in the currency designated by JSCC. In this case, when a Clearing Participant deposits cash in any currency other than Japanese yen, its appraisal value shall be the amount equal to the value of cash in that currency converted to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of that currency in the Tokyo foreign exchange market on the day which is two days before the date of deposit multiplied by a certain rate determined by JSCC.

5 Notwithstanding the provisions of the immediately preceding Paragraph, securities\*1 may be deposited in lieu of cash as to the portion of clearing fund exceeding the Clearing Fund Cash Requirement in accordance with the rules of JSCC.

(\*1 limited to the securities which are deemed appropriate by JSCC taking the liquidity and other factors into account)

6 The substituting price of the securities stipulated in the preceding Paragraph shall be calculated by multiplying the market price, as determined by JSCC, as of the day which precedes the date of the deposit by two days, by a certain rate determined by JSCC; provided, however, that JSCC may extraordinarily change the substituting value, when JSCC deems it particularly necessary to do so, such as in the case of an excessive fluctuation in the market.

7 In addition to the provisions of the preceding two Paragraphs, matters concerning the securities to be deposited in lieu of cash as clearing fund shall be prescribed by JSCC.

(Article 17) - Deleted)

(Article 18 Liability for Securities and Similar Contract Clearing Business)

JSCC shall not be held liable to indemnify Clearing Participant for the damages suffered by it in the course of its business operation in relation to the Securities and Similar Contract Clearing Business performed by JSCC unless a willful misconduct or gross negligence on the part of JSCC is found.

(Article 19 Matters to be Notified)

When a Clearing Participant intends to carry out any of the following acts, it shall notify

JSCC of the details in advance in accordance with the rules of JSCC:

(1) The acts set forth in A) or B) below according to the category of the Clearing Participant as set forth therein:

A) Securities Clearing Participant, JGB Futures Clearing Participant or Index Futures Clearing Participant - any of the acts set forth in (a) through (c) below according to the category set forth therein within which it falls:

(a) In the case of a Financial Instruments Business Operator:

Discontinuance of the operations prescribed in Item 1 of Paragraph 1 of Article 28 of the Act

(b) In the case of a Registered Financial Institution:

Discontinuance of the Registered Financial Institution Business<sup>\*1</sup>

(\*1referring to the Registered Financial Institution Business prescribed in Item 3 of Paragraph 1 of Article 33-5 of the Act; the same shall apply hereinafter)

(c) In the case of a Securities Finance Company:

Discontinuance of the operations prescribed in Paragraph 1 of Article 156-24 of the Act

B) FX Clearing Participant - any of the acts set forth in (a) through (c) below according to the category set forth therein within which it falls:

(a) In the case of a Financial Instruments Business Operator<sup>\*1</sup>:

(\*1excluding those falling within the category of (b) below)

Discontinuance of the operations prescribed in Item 3 of Paragraph 2 of Article 28 of the Act

(b) In the case of a Financial Instruments Business Operator<sup>\*1</sup>:

(\*1limited to those to whom an Exchange FX Contract is commissioned)

Discontinuance of the operations prescribed in Item 3 of Paragraph 2 of Article 28 of the Act or Paragraph 5 of the same Article

(c) In the case of a Registered Financial Institution:

Discontinuance of the Registered Financial Institution Business

(2) Merger in which the Clearing Participant becomes a disappearing corporation and is merged into another company, and merger in which the Clearing Participant merges with another company and establishes a new company;

(3) Dissolution of the Clearing Participant due to any reason other than merger or decision to commence bankruptcy proceeding;

(4) Succession by another company of all or a part of the Business<sup>\*1</sup> of the Clearing Participant due to a corporate divestiture;

(\*1referring to the business relating to the Registered Financial Institution Business in the case of a Registered Financial Institution, and to the business relating to the operations prescribed in Paragraph 1 of Article 156-24 of the Act in the case of a

Securities Finance Company; the same applies in this Article and Paragraph 5 of Article 29)

- (5) Transfer of all or a part of the Business;
- (6) Merger in which the Clearing Participant becomes a surviving company after being merged with another company;
- (7) Succession of all or a part of the Business from another company due to a corporate divestiture;
- (8) Acquisition of all or a part of the Business;
- (9) Change in the trade name or corporate name\*<sup>1</sup>;  
(\*<sup>1</sup> including a change in the trade name or corporate name in English)
- (10) Change in the composition of its directors or officers; or
- (11) Change in the address of its headquarters or principal office.

2 In addition to the provisions set forth in the preceding Paragraph, when an Agency Clearing Participant is to discontinue the operations in respect of the Brokerage for Clearing of Securities, etc., it shall notify JSCC of the details in advance in accordance with the rules of JSCC.

(Article 20 Matters to be Reported)

When a Clearing Participant falls under the circumstances prescribed by JSCC, it shall immediately report the details to JSCC.

(Article 21 Examination on Clearing Participant)

In the event which is stipulated in each Item provided below, or if JSCC deems it necessary to do so for its operation of the Securities and Similar Contract Clearing Business, JSCC may request Clearing Participant to submit a report or document which should serve as reference regarding the business, operation, or assets of the Clearing Participant, or may cause its employees to inspect the Clearing Participant's business, operation, financial condition, books, documents, or other materials:

- (1) In the event JSCC conducts an examination on the status of the Clearing Participant's compliance with these Business Rules or other rules;
- (2) In the event JSCC conducts an examination on the financial condition of the Clearing Participant;
- (3) In the event JSCC conducts an examination on the certainty about the performance of the Clearing Participant's obligation owed to JSCC; and
- (4) In the event JSCC is requested by Designated Market Operator to provide information with regards to an examination aiming at securing fairness in buying/selling securities, other transactions and the like, and JSCC deems it appropriate to respond to such request.

(Article 21-2 Inquiry to Clearing Participant Holding Excessive Position in respect of Unsettled Contracts under Commission)

1 When JSCC considers that there is a possibility of excessive position holding in respect of Futures and Option Contracts<sup>\*1</sup> <sup>\*2</sup> under commission by its customers<sup>\*3</sup>, JSCC may ask the relevant Clearing Participant to report all or a part of below listed matters:

(<sup>\*1</sup> referring to Securities Option Contracts, JGB Futures Contracts, Option Contracts on JGB Futures Contracts, Index Futures Contracts and Index Option Contracts; the same applies hereinafter)

(<sup>\*2</sup> including contracts under commission of the Brokerage for Clearing of Securities, etc. by Non-Clearing Participants; the same applies in this Article)

(<sup>\*3</sup> referring to the case where the Amount Corresponding to Risk<sup>\*3-1</sup> assumed to be owed under the Unsettled Contracts related to the Futures and Option Contracts of the relevant Clearing Participant is suspected to be excessive, compared to the relevant Clearing Participant's net worth<sup>\*3-2</sup> or its financial condition such as cash, etc. <sup>\*3-3</sup>)

(<sup>\*3-1</sup> referring to the amount corresponding to the risk of loss which can result from fluctuations of prices of each issue relating to the contracts in which the relevant Clearing Participant has Unsettled Contracts related to the Futures and Option Contracts; the same applies in Article 29-2 and Article 29-3)

(<sup>\*3-2</sup> in the case of a Registered Financial Institution, the amount of its net assets)

(<sup>\*3-3</sup> including contracts pursuant to the commissions of the Brokerage for Clearing of Securities, etc. from Non-Clearing Participants)

(1) details of the Unsettled Contracts related to the relevant Futures and Option Contracts of the customer whose required amount of Margin related to the Unsettled Contracts of the Futures and Option Contracts is the largest<sup>\*1</sup>;

(<sup>\*1</sup> hereinafter referred to as the "Largest Customer")

(2) the required amount of Margin and the like related to the Unsettled Contracts of the relevant Futures and Option Contracts of the Largest Customer;

(3) status of deposit with or posting to JSCC of the Margin related to the Unsettled Contracts of the relevant Futures and Option Contracts of the Largest Customer; and

(4) the Clearing Participant's customer management framework and other information related to the relevant Futures and Option Contracts of the Largest Customer.

2 When asked reporting by JSCC pursuant to the provisions of the immediately preceding Paragraph, the Clearing Participant must submit the report by the day that is the third day<sup>\*1</sup> from and including the day it is asked reporting.

(<sup>\*1</sup> excluding Non-Business Days; the same applies when counting number of days hereinafter)

3 When JSCC considers it still necessary after receiving report set forth in the immediately preceding Paragraph, JSCC may ask the relevant Clearing Participant to report all or a part of below listed matters in respect of the customers of the Largest Customer<sup>\*1</sup>:

(\*1 hereinafter referred to as the “Indirect Customer”)

(1) details of the Unsettled Contracts related to the relevant Futures and Option Contracts of the Indirect Customer whose required amount of Margin related to the Unsettled Contracts is the largest\*1;

(\*1 hereinafter referred to as the “Largest Indirect Customer”)

(2) the required amount of margin and the like related to the Unsettled Contracts of the relevant Futures and Option Contracts of the Largest Indirect Customer;

(3) status of deposit with or posting to JSCC of the Margin related to the Unsettled Contracts of the relevant Futures and Option Contracts of the Largest Indirect Customer; and

(4) the Largest Customer’s customer management framework and other information related to the relevant Futures and Option Contracts of the Largest Indirect Customer.

4 When asked reporting by JSCC pursuant to the provisions of the immediately preceding Paragraph, the Clearing Participant must submit the report to JSCC by the day that is the sixth day from and including the day it is asked reporting.

5 If the Clearing Participant fails to submit the report by the deadline set forth in Paragraph 2 or 4, as the case may be, JSCC may increase the required amount of Margin related to the Futures and Option Contracts under commission by customers or commission through the Brokerage for Clearing of Securities by a Non-Clearing Participant up to 130 percent of such required amount.

Section 4 Renunciation/Forfeiture of Clearing Qualification

(Article 22 Application for Renouncing Clearing Qualification)

- 1 When a Clearing Participant intends to renounce its Clearing Qualification, it shall apply for the renunciation with respect to each category of the Clearing Qualification to be renounced in accordance with the rules of JSCC.
- 2 When an Index Futures Clearing Participant\*<sup>1</sup> intends to renounce its Securities Clearing Qualification, such Index Futures Clearing Participant shall simultaneously apply for renouncing its Index Futures Clearing Qualification, unless such Index Futures Clearing Participant is expected to designate a Designated Securities Clearing Participant simultaneously with the renouncement of its Securities Clearing Qualification.  
(\*<sup>1</sup>excluding an Index Futures Clearing Participant which does not hold a trading qualification relating to a Security Option Contract)
- 3 When an Index Futures Clearing Participant\*<sup>1</sup> intends to terminate a Contract for Commissioning Clearance\*<sup>2</sup> entered into with a Designated Securities Clearing Participant, it shall apply for renouncing its Index Futures Clearing Qualification prior to the termination, unless such Index Futures Clearing Participant obtains Securities Clearing Qualification or designates another Clearing Participant as Designated Securities Clearing Participant simultaneously with the termination of the Contract for Commissioning Clearance.  
(\*<sup>1</sup>excluding an Index Futures Clearing Participant which does not hold a trading qualification relating to a Security Option Contract)  
(\*<sup>2</sup> referring to the Contract for Commissioning Clearance prescribed in Article 39; the same applies hereinafter until Article 34)

(Article 22-2 Exceptional Treatment of Application for Renouncing Clearing Qualification Associated with Secession of Exchange FX Contracts)

When a Designated Market Operator intends to cease trading of Exchange FX Contracts\*<sup>1</sup>, and no other Designated Market Operator operates a market for Exchange FX Contracts, then, notwithstanding the provisions of Paragraph 1 of the preceding Article, Clearing Participants holding FX Clearing Qualification at the time of such secession shall be deemed to have applied for renouncing such FX Clearing Qualification as of the date designated by JSCC.

(\*<sup>1</sup> referring to a secession of Exchange FX Contracts stipulated by the Designated Market Operator)

(Article 23 Handling of Unsettled Contract of Participant Renouncing Clearing Qualification)

- 1 When a Clearing Participant applies for renouncing its Clearing Qualification, it shall completely dissolve beforehand all the Contracts for Clearing pertaining to the relevant Clearing Qualification which remain unsettled.

- 2 When an Agency Clearing Participant applies for renouncing the Agency Clearing Qualification, it shall beforehand terminate all the Contracts for Commissioning Clearance\*<sup>1</sup> pertaining to the relevant Clearing Qualification.

(Article 24 Exception in the case of Merger, etc. of Participant Renouncing Clearing Qualification)

- 1 In the event which is set forth in Paragraph 1 of the preceding Article, the Clearing Participant may choose not to dissolve the unsettled Contracts for Clearing to the extent permitted by JSCC notwithstanding the provisions of said Paragraph if JSCC determines that it is unnecessary to dissolve all of the unsettled Contracts for Clearing pertaining to the relevant Clearing Qualification of the Clearing Participant in such circumstances as that, simultaneously with the renunciation of the Clearing Qualification, the relevant Clearing Participant is merged into, or causes its business through a corporate divestiture to be succeeded by, or causes its business to be transferred to, another company that is going to obtain or has already obtained the Clearing Qualification of the same category as that of the relevant Clearing Participant.
- 2 In the event which is set forth in Paragraph 2 of the preceding Article, the Agency Clearing Participant may choose not to cause every Contract for Commissioning Clearance concluded by it to be terminated to the extent permitted by JSCC notwithstanding the provisions of said Paragraph if JSCC determines that it is unnecessary to terminate all the Contracts for Commissioning Clearance pertaining to the relevant Agency Clearing Qualification of the Agency Clearing Participant in such circumstances as that, simultaneously with the renunciation of the Agency Clearing Qualification, the relevant Agency Clearing Participant is merged into, or causes its business through a corporate divestiture to be succeeded to by, or causes its business to be transferred to, another company that is going to obtain or has already obtained the Agency Clearing Qualification of the same category as that of the relevant Agency Clearing Participant.

(Article 25 Suspension of Assumption of Obligation for the Participant Renouncing Clearing Qualification)

- 1 From the day immediately following the day on which JSCC receives an application for renouncing Clearing Qualification from a Clearing Participant\*<sup>1</sup>, JSCC shall stop assuming new obligations\*<sup>2</sup> under the Contracts Subject to Clearing which pertain to the relevant Clearing Qualification and to which the relevant Clearing Participant is a party.

(\*<sup>1</sup> where the Clearing Qualification for which renunciation is applied is a Securities Clearing Qualification, JGB Futures Clearing Qualification or Index Futures Clearing Qualification and such day falls on a Non-business Day, or where the Clearing Qualification for which renunciation is applied is an FX Clearing Qualification and such day falls on an FX Non-business Day, it shall be the immediately following business day)

(\*<sup>2</sup> including the obligation to be incurred as a result of the completion of the Give-up prescribed in Article 46-2, the same applies hereinafter)

- 2 Notwithstanding the provisions of the preceding Paragraph if JSCC determines that it is unnecessary to dissolve the unsettled Contracts for Clearing of the Clearing Participant in such circumstances as that, simultaneously with the renunciation of the Clearing Qualification, the relevant Clearing Participant is merged into, or causes its business through a corporate divestiture to be succeeded by, or causes its business to be transferred to, another company that is going to obtain or has already obtained the Clearing Qualification of the same category as that of the relevant Clearing Participant; JSCC may choose not to stop assuming all or a part of the obligations under the Contracts Subject to Clearing to which the relevant Clearing Participant applying for renouncing the Clearing Qualification is a party.

(Article 26 Approval for Renunciation of Clearing Qualification)

- 1 The approval of the renunciation of Clearing Qualification shall be made by JSCC by designating a particular date in the future and the relevant Clearing Qualification shall be nullified on that date.
- 2 In the event JSCC has approved the renunciation of Clearing Qualification, JSCC shall notify to that effect to all the other Clearing Participants having the Clearing Qualification of the same category and to the Designated Market Operator which operates the Financial Instruments Market with regards to the Contracts Subject to Clearing pertaining to the relevant Clearing Qualification.

(Article 27 Refund of Clearing Fund upon Renunciation of Clearing Qualification)

- 1 When a Clearing Participant renounces all of the Securities Clearing Qualification, JGB Futures Clearing Qualification and Index Futures Clearing Qualification\*<sup>1</sup>, JSCC shall refund each type of the clearing fund listed in Items (1) through (3) of Paragraph 1 of Article 16 after the date of the renunciation; provided, however, that if there remains unsettled Contracts for Clearing of the Clearing Participant which has renounced such Clearing Qualifications, or if JSCC otherwise deems it necessary, JSCC may suspend the refund of each type of the clearing fund listed in Items (1) through (3) of Paragraph 1 of Article 16 until such reason ceases to exist.

(\*<sup>1</sup> including renunciation due to a revocation of Clearing Qualification; the same applies hereinafter in this Article and the following Article)

- 2 When a Clearing Participant renounces the FX Clearing Qualification\*<sup>1</sup>, JSCC shall refund the FX Clearing Fund after the date of the renunciation; provided, however, that if there remains unsettled Contracts for Clearing of the Clearing Participant which has renounced such Clearing Qualification, or if JSCC otherwise deems it necessary, JSCC may suspend the refund of the FX Clearing Fund until such reason ceases to exist.

(\*<sup>1</sup> including renunciation due to a revocation of Clearing Qualification; the same applies hereinafter in this Article and the following Article)

(Article 28 Performance of Obligation upon Nullification of Clearing Qualification)

The entity that has lost its Clearing Qualification shall apply the money and securities to be returned from JSCC toward the satisfaction of all of its obligations owed to JSCC as Clearing Participant.

(Article 28-2 Application of These Business Rules upon Renunciation of Clearing Qualification)

When a Clearing Participant renounces its Clearing Qualification, if there remain any claim or obligation arising from any cause before such renunciation, the provisions of these Business Rules<sup>\*1</sup> shall apply to such claims and obligations.

(\*<sup>1</sup> including any rules and regulations promulgated hereunder)

Section 5 Measures to be Taken with respect to Clearing Participants, etc.

(Article 29 Measures to be Taken with respect to Clearing Participants)

1 When JSCC deems that a Clearing Participant falls under any of the following Items, JSCC may conduct a hearing for the relevant Clearing Participant and take the measures to prohibit the Cross Margining Request<sup>\*1</sup>, to issue the Instructions for Improvement<sup>\*2</sup>, to suspend the assumption of all or a part of the obligations under the Contracts Subject to Clearing to which such Clearing Participant is a party, or to revoke the Clearing Qualification of such Clearing Participant presenting the reason therefor. In such event, the revocation of the Clearing Qualification shall require a resolution adopted at the meeting of the board of directors:

(\*1 referring to the Cross Margining Request set forth in Paragraph 1 of Article 73-15-2; the same applies in Article 34)

(\*2 referring to the instructions issued to the relevant Clearing Participant regarding improvements to be made to its business execution structure, etc., to the extent deemed necessary and appropriate for JSCC's operation of the Securities and Similar Contract Clearing Business; the same applies hereinafter)

- (1) When the Clearing Participant does not submit the notification set forth in Article 19, or the report set forth in Article 20, or submits any false notification/report;
- (2) When the Clearing Participant refuses, prevents or evades the examination set forth in Article 21 or Article 21-2, or does not submit the report/document or submits any false report/document pursuant to such Article;
- (3) When its business execution structure is deemed to be flawed; and
- (4) In addition to the events described in the preceding Items, when the Clearing Participant violates these Business Rules, other rules, or measures taken pursuant to the foregoing, or when JSCC deems it necessary taking into account its operation of the Securities and Similar Contract Clearing Business if the Clearing Participant damages the reputation of JSCC or other Clearing Participants.

2 When a Clearing Participant falls under any of the following Items, JSCC may conduct a hearing for the relevant Clearing Participant and take the measures to suspend the assumption of all or a part of the obligations under the Contracts Subject to Clearing to which such Clearing Participant is a party and/or any other measures deemed necessary and appropriate by JSCC, presenting the reason therefor:

- (1) When the Clearing Participant refuses to comply with a request made pursuant to the provisions of Article 14 to change the cooperative or controlling relationship with a director, officer or other person;
- (2) When a majority of the voting rights<sup>\*1</sup> of all the shareholders or a majority of the voting rights relating to capital contributions has come to be held by a person or persons who is or are deemed to be inappropriate taking JSCC's operation of the Securities and Similar

Contract Clearing Business into account; or

(\*<sup>1</sup> including the voting rights pertaining to the shares which are deemed to have voting rights pursuant to Paragraph 3 of Article 879 of the Companies Act (Act No. 86 of 2005), but excluding the voting rights pertaining to the shares whose voting rights cannot be exercised on any of the matters that may be resolved on at general meetings of shareholders)

(3) When a person holding the same or greater degree of control over the Clearing Participant as or than that held by a director or an executive officer —whether such person holds a title of consultant, advisor or otherwise— is deemed to be inappropriate taking JSCC's operation of the Securities and Similar Contract Clearing Business into account.

3 When a Clearing Participant falls under any of the following Items, JSCC may conduct a hearing for the relevant Clearing Participant and take the measures to suspend the assumption of all or a part of the obligations under the Contracts Subject to Clearing to which such Clearing Participant is a party until the relevant condition ceases to exist:

(1) When the amount of its stated capital or the total amount of capital contributions\*<sup>1</sup> becomes less than 300 million yen\*<sup>2</sup> and a swift recovery from such condition cannot be expected;

(\*<sup>1</sup> in the case of a mutual company, the total amount of the foundation fund\*<sup>1-1</sup>)

(\*<sup>1-1</sup> including the amount of reserve for redemption of the foundation fund)

(\*<sup>2</sup> in the case of a Securities Finance Company which has obtained the Clearing Qualification pursuant to the application made under Paragraph 3 of Article 6, 100 million yen)

(2) When the amount of its net worth\*<sup>1</sup> becomes less than 300 million yen and a swift recovery from such condition cannot be expected;

(\*<sup>1</sup> in the case of a Registered Financial Institution and a Securities Finance Company, the amount of its net assets)

(3) In the case of a Financial Instruments Business Operator, when its Capital-to-Risk Ratio becomes less than 120 percent and a swift recovery from such condition cannot be expected;

(4) In the case of a Special Financial Instruments Business Operator, when its consolidated Capital-to-Risk Ratio becomes less than 120 percent and a swift recovery from such condition cannot be expected;

(5) In the case of a Registered Financial Institution subject to Uniform International Standards, when any one of the events set forth in A) to C) below occurs with respect to it\*<sup>1</sup>:

(\*<sup>1</sup> in the case of a foreign bank, any event equivalent thereto occurs and JSCC determines it necessary)

A) Its non-consolidated or consolidated Common Equity Tier 1 ratio becomes

- less than 2.25 percent and a swift recovery from such condition cannot be expected;
- B) Its non-consolidated or consolidated Tier 1 ratio becomes less than 3 percent and a swift recovery from such condition cannot be expected; or
  - C) Its non-consolidated or consolidated Total Capital ratio becomes less than 4 percent and a swift recovery from such condition cannot be expected;
- (6) In the case of a Financial Institution subject to Japanese Standard<sup>\*1</sup>, when its non-consolidated or consolidated capital adequacy ratio under the domestic standards becomes less than 2 percent and a swift recovery from such condition cannot be expected; and
- (\*1 excluding any Registered Financial Institution which has obtained the Clearing Qualification pursuant to the application made under Paragraph 3 of Article 6, if such Registered Financial Institution is a Securities Finance Company)
- (7) In the case of an insurance company, when its non-consolidated or consolidated solvency margin ratio becomes less than 100 percent and a swift recovery from such condition cannot be expected.
- 4 In the case where a Clearing Participant is an Agency Clearing Participant and falls under any of the following Items, JSCC may conduct a hearing for the relevant Clearing Participant and take the measures to suspend the assumption of all or a part of the obligations<sup>\*1</sup> under the Contracts Subject to Clearing to which such Clearing Participant is a party until the relevant condition ceases to exist:
- (\*1 limited to the obligations relating to the Brokerage for Clearing of Securities, etc.)
- (1) When the amount of its net worth<sup>\*1</sup> becomes less than 20 billion yen and a swift recovery from such condition cannot be expected;  
(\*1 in the case of a Registered Financial Institution, the amount of its net assets)
  - (2) In the case of a Financial Instruments Business Operator, when its Capital-to-Risk Ratio becomes less than 200 percent and a swift recovery from such condition cannot be expected;
  - (3) In the case of a Special Financial Instruments Business Operator, when its consolidated Capital-to-Risk Ratio becomes less than 200 percent and a swift recovery from such condition cannot be expected;
  - (4) In the case of a Registered Financial Institution subject to Uniform International Standards, when any one of the events set forth in A) to C) below occurs with respect to it<sup>\*1</sup>:  
(\*1 in the case of a foreign bank, when any event equivalent thereto occurs and JSCC determines it necessary)
    - A) Its non-consolidated or consolidated Common Equity Tier 1 ratio becomes less than 4.5 percent and a swift recovery from such condition cannot be expected;

- B) Its non-consolidated or consolidated Tier 1 ratio becomes less than 6 percent and a swift recovery from such condition cannot be expected; or
  - C) Its non-consolidated or consolidated Total Capital ratio becomes less than 8 percent and a swift recovery from such condition cannot be expected;
- (5) In the case of a Financial Institution subject to Japanese Standard, when its non-consolidated or consolidated capital adequacy ratio under the domestic standards becomes less than 4 percent, and a swift recovery from such condition cannot be expected; and
- (6) In the case of an insurance company, when its non-consolidated or consolidated solvency margin ratio becomes less than 400 percent and a swift recovery from such condition cannot be expected.
- 5 In the event that a Clearing Participant has notified JSCC of the matters set forth in Item (1) of Paragraph 1 of Article 19 or has made a public announcement of any of the matters set forth in Item (2) through Item (5) of Paragraph 1 of the said Article<sup>\*1</sup>, but does not apply for the renunciation of its Clearing Qualification, JSCC may conduct a hearing for the relevant Clearing Participant and take the measures to suspend the assumption of all or a part of the obligations under the Contracts Subject to Clearing to which such Clearing Participant is a party.
- (\*1 in the case of Item (4) of Paragraph 1 of the said Article, limited to the succession of the entire Business, and in the case of Item (5), limited to the transfer of the entire Business)
- 6 In the event that an Agency Clearing Participant has submitted the notification set forth in Paragraph 2 of Article 19 but does not apply for the renunciation of its Agency Clearing Qualification, JSCC may conduct a hearing for the relevant Clearing Participant and take the measure to suspend the assumption of all or a part of the obligations under the Contracts Subject to Clearing<sup>\*1</sup> to which such Clearing Participant is a party.
- (\*1 limited to the obligations relating to the Brokerage for Clearing of Securities, etc.)

(Article 29-2 Measures to be Taken with respect to Clearing Participants with Excessive Positions)

- 1 In the event that a Clearing Participant is deemed to hold excessive positions<sup>\*1</sup> or there is deemed to be a real possibility of such event, JSCC may take any of the measures set forth in the following Items and/or any other measures deemed necessary by JSCC:
- (\*1 referring to the event where the Amount Corresponding to Risk assumed to be owed under the relevant Clearing Participant's Unsettled Contracts is deemed excessive, compared to the relevant Clearing Participant's net worth<sup>\*112</sup> or its financial condition such as cash, etc., and such Amount Corresponding to Risk arises from the contracts on the account of such Clearing Participant or the contracts pursuant to the commissions from a small number of customers<sup>\*1-2</sup>; the same applies in the following Article)

(\*<sup>1-1</sup> in the case of a Registered Financial Institution or a Securities Finance Company, the amount of its net assets)

(\*<sup>1-2</sup> including contracts pursuant to the commissions of the Brokerage for Clearing of Securities, etc. from Non-Clearing Participants)

(1) Increase in the required amount of the Margin and the Like<sup>\*1</sup>;

(\*<sup>1</sup> referring to the initial margin, clearing fund or Margin<sup>\*1-1</sup>; the same applies hereinafter in this Paragraph)

(\*<sup>1-1</sup> referring to the Margin relating to the Future and Option Contracts on the Clearing Participant's own account, or the Futures and Option Contracts pursuant to the commissions from a customer or commissions of the Brokerage for Clearing of Securities, etc. from a Non-Clearing Participant, or the Margin relating to the Exchange FX Contracts on the Clearing Participant's own account, or the Exchange FX Contracts pursuant to the commissions from a customer or commissions of the Brokerage for Clearing of Securities, etc. from a Non-Clearing Participant)

(2) In the case where securities are deposited in lieu of cash as the Margin and the Like, limitations on the securities designated by JSCC; and

(3) In the case where securities are deposited in lieu of cash as the Margin and the Like, reduction in the rate by which the securities' market value shall be multiplied when calculating the substituting price.

2 In the event that any of the measures set forth in the preceding Paragraph is taken with respect to the Margin relating to the Futures and Option Contracts or the Margin relating to the Exchange FX Contracts pursuant to the commissions from a customer or commissions of the Brokerage for Clearing of Securities, etc. from a Non-Clearing Participant, the Clearing Participant which is subject to such measure shall take the measure, which is the same as the above-referenced measure, with respect to the relevant customer or the relevant Non-Clearing Participant.

(Article 29-3 Instructions for Improvement on Position Holding)

1 In the event that, even after the increase of the required amount of Margin as set forth in Paragraph 5 of Article 21-2, the Clearing Participant still fails to submit report set forth in Paragraph 1 or 3, as the case may be, of Article 21-2, that, even after the measures set forth in the preceding Article are taken, the relevant Clearing Participant is still deemed to hold excessive positions on the date designated by JSCC or that it is deemed necessary to immediately eliminate the risk relating to the likelihood of the relevant Clearing Participant's performance of its obligations owed to JSCC due to an increase in the Amount Corresponding to Risk of the relevant Clearing Participant, etc., JSCC may conduct a hearing for the relevant Clearing Participant and, to the extent necessary, issue the

instructions for improvement on position holding<sup>\*1</sup> pursuant to resolutions adopted at the meeting of the board of directors.

(\*1 limited to those relating to Futures and Option Contracts or Exchange FX Contracts)

- 2 The Clearing Participant to which the instructions for improvement on position holding set forth in the preceding Paragraph is issued shall take concrete measures such as enhancing its capital, settling its unsettled Contracts for Clearing or transferring them to other Clearing Participants, etc., in order to resolve the matters for which such Instructions were issued, on or before the date designated by JSCC in each case.
- 3 In the event that the relevant Clearing Participant intends to transfer its Unsettled Contracts to such other Clearing Participants in accordance with the provisions of the preceding Paragraph, such Clearing Participant shall obtain in advance the approval of JSCC and such other Clearing Participants.
- 4 When the preceding Paragraph applies, if the Unsettled Contracts to be transferred are commissioned by a customer, the relevant Clearing Participant shall obtain such customer's approval of the transfer of such Unsettled Contracts.
- 5 When Paragraph 3 applies, if the Unsettled Contracts to be transferred are pursuant to the commissions of the Brokerage for Clearing of Securities, etc. from a Non-Clearing Participant, the relevant Clearing Participant shall obtain such Non-Clearing Participant's approval of the transfer of the Unsettled Contracts.
- 6 In addition to the matters prescribed in these Business Rules, any matters necessary for the instructions for improvement on position holding shall be prescribed by JSCC on each applicable occasion.

(Article 29-4 Measures to be Taken with respect to Clearing Participants When their Collateral Deposit Status is Deemed Inappropriate, etc.)

- 1 In the event that any Clearing Participant deposits with JSCC Stocks And The Like<sup>\*1</sup> in lieu of cash as the Clearing Deposit <sup>\*2</sup> and the Margin<sup>\*3</sup>, if the deposited amount aggregated by issue exceeds the amount equal to 2% of the number of listed shares<sup>\*3</sup> of such issue, JSCC may take the measures set forth in any of the following Items with respect to the relevant Clearing Participant:

(\*1 referring to stocks, preferred equity capital contribution securities, investment trust beneficiary securities and investment securities; the same applies in this Article)

(\*2 referring to the Clearing Deposit prescribed in Article 74: the same applies in this Article)

(\*3 limited to the Margin relating to the Futures and Option Contracts on the Clearing Participant's own account, the Margin under commission by customers that relates to the Futures and Option Contracts on account of persons in the same corporate group<sup>\*3-1</sup> as the relevant Clearing Participant and the persons that are substantially deemed as the persons in the same corporate group as the relevant Clearing Participant<sup>\*3-2</sup> and other Margin prescribed by JSCC; the same applies in this Paragraph)

(\*<sup>3-1</sup> referring to the corporate group as set forth in Item (2) of Paragraph 1 of Article 5 of the Act; the same applies hereinafter)

(\*<sup>3-2</sup> hereinafter referred to as "Affiliates")

(\*<sup>3</sup> in the case of preferred equity capital contribution securities, the number of listed units of the preferred equity capital contribution securities; in the case of investment trust beneficiary securities, the number of listed units of the beneficiary securities; and in the case of investment securities, the number of listed units of the investment securities; the same applies hereinafter)

(1) In the case where securities are deposited in lieu of cash as the Clearing Deposit and Margin, limitations on securities designated by JSCC; and

(2) In the case where securities are deposited in lieu of cash as the Clearing Deposit and Margin, reduction in the rate by which the securities' market value shall be multiplied when calculating the substituting price.

2 In the event that any Clearing Participant deposits with JSCC Stocks And The Like in lieu of cash as the Clearing Deposit and the Margin\*<sup>1</sup>, if the deposited amount aggregated by issue exceeds the amount equal to 5% of the number of listed shares of such issue, JSCC may take the measures set forth in any of the following Items with respect to the relevant Clearing Participant:

(\*<sup>1</sup> limited to the Margin relating to the Futures and Option Contracts on the Clearing Participant's own account, the Margin for the Futures and Option Contracts on account of Affiliates and other Margin prescribed by JSCC; the same applies in this Paragraph and Paragraph 4)

(1) In the case where securities are deposited in lieu of cash as the Clearing Deposit and Margin, limitations on securities designated by JSCC; and

(2) In the case where securities are deposited in lieu of cash as the Clearing Deposit and Margin, reduction in the rate by which the securities' market value shall be multiplied when calculating the substituting price.

3 In the event that the ratio of the total amount of the appraisal value of securities deposited in lieu of cash other than municipal bonds, special bonds, corporate bonds and Japanese yen denominated foreign bonds and the amount of cash to the required amount of collateral relating to the Clearing Deposit and the Margin\*<sup>1</sup> exceeds 80%, JSCC may take the measures set forth in any of the following Items with respect to the relevant Clearing Participant:

(\*<sup>1</sup> limited to the Margin relating to the Futures and Option Contracts on the Clearing Participant's own account and the Margin for the Futures and Option Contracts on account of Affiliates; the same applies in this Paragraph)

(1) In the case where securities are deposited in lieu of cash as the Clearing Deposit and Margin, limitations on securities designated by JSCC; and

(2) In the case where securities are deposited in lieu of cash as the Clearing Deposit and

Margin, reduction in the rate by which the securities' market value shall be multiplied when calculating the substituting price.

- 4 In the event that the securities issued by a Clearing Participant\*<sup>1</sup> are deposited with JSCC in lieu of cash as the Clearing Deposit and the Margin, JSCC may take the measures set forth in any of the Items of Paragraph 2 with respect to such Clearing Participant in connection with the securities issued by such Clearing Participant.

(\*<sup>1</sup> including securities issued by the parent company\*<sup>1-1</sup> or subsidiary\*<sup>1-2</sup> of the relevant Clearing Participant, or any subsidiary of such parent company)

(\*<sup>1-1</sup> referring to an entity who is deemed to be the parent company of the relevant Clearing Participant under the provisions of Paragraph 3 of Article 8 of the Regulations Concerning the Terms, Forms and Preparation Methods of Financial Statements, etc.\*<sup>1-1-1</sup>; the same applies hereinafter in this Paragraph)

(\*<sup>1-1-1</sup> Ministry of Finance Ordinance No. 59 of 1963; hereinafter referred to as the "Financial Statements, etc. Regulations")

(\*<sup>1-2</sup> referring to an entity who is deemed to be a subsidiary of the relevant Clearing Participant under the provisions of Paragraph 3 of Article 8 of the Financial Statements, etc. Regulations; the same applies hereinafter in this Paragraph)

- 5 In addition to the provisions of each of the preceding Paragraphs, if deemed necessary by JSCC in order to ensure the performance by a Clearing Participant of its obligations owed to JSCC, JSCC may take measures set forth in Paragraphs 1 to 4 with respect to the relevant Clearing Participant.

(Article 29-5 Suspension of Assumption of Obligations of Clearing Participant whose Risk Increased during Specific Time Period)

In the event that, in respect of a Clearing Participant, the Amount Corresponding to Risk calculated in the manner prescribed by JSCC as the risk amount assumed to be owed by such Clearing Participant under normal market conditions exceeds the amount pre-determined by JSCC during the period of time prescribed by JSCC, JSCC may take measures of suspension of assumption of all or a part of obligations under the Contracts Subject to Clearing to which the relevant Clearing Participant is a party.

(Article 30 Measures against Clearing Participant, the Obligations of which JSCC has Ceased to Assume Due to Failure to Apply for Renouncing Clearing Qualification upon Discontinuation of Business, etc.)

- 1 In the event that JSCC has suspended, pursuant to Paragraph 5 or Paragraph 6 of Article 29, assumption of the obligations under the Contracts Subject to Clearing to which the relevant Clearing Participant is a party, JSCC may cause such Clearing Participant to transfer its unsettled Contracts for Clearing to other Clearing Participants or to make other arrangements that JSCC deems necessary.

- 2 JSCC may assume the obligations under the Contracts Subject to Clearing to which the relevant Clearing Participant is a party in order to make the arrangements set forth in the preceding Paragraph or otherwise to the extent that JSCC deems necessary.
- 3 When JSCC deems it necessary, it may cause other Clearing Participants to make the arrangements set forth in Paragraph 1. In such case, an entrustment agreement shall be deemed to have been formed between such other Clearing Participant and the Clearing Participant whose obligations ceased to be assumed by JSCC pursuant to said Paragraph.

(Article 31 Lifting of the Measures of Suspension of Assumption of Obligation, etc.)

- 1 In the event that JSCC has suspended assumption of obligations\*<sup>1</sup> pursuant to Article 29 without specifying its duration, the Clearing Participant subject to such suspension, when it has eliminated the reason for such suspension, may file a petition with explanatory documents for the lifting of such suspension.

(\*<sup>1</sup> excluding the suspension of assumption made only in respect of the obligations pertaining to the Brokerage for Clearing of Securities, etc.)

- 2 When JSCC deems it appropriate to lift the suspension based on the petition set forth in the preceding Paragraph, JSCC shall approve such petition.
- 3 In the event that the Clearing Participant subject to the suspension set forth in Paragraph 1 fails to obtain the approval set forth in the preceding Paragraph within one year from the day on which it was subjected to such suspension, JSCC may revoke the Clearing Qualification of the relevant Clearing Participant by a resolution adopted at the meeting of the board of directors.
- 4 The provisions of the preceding three Paragraphs shall apply *mutatis mutandis* to the case where JSCC suspended assumption of obligations\*<sup>1</sup> pursuant to Article 29 without specifying its duration. In such case, the phrase “may revoke the Clearing Qualification of” in Paragraph 3 shall be deemed to be “may revoke the Agency Clearing Qualification of and grant the Principal Clearing Qualification to”.

(\*<sup>1</sup> limited to the suspension of assumption made only in respect of the obligations pertaining to the Brokerage for Clearing of Securities, etc.)

- 5 The provisions of Paragraph 1 and Paragraph 2 shall apply *mutatis mutandis* to the case where any measure set forth in Article 29-2 through Article 29-4 is taken.

(Article 32 Making Objection, etc.)

The proviso of Paragraph 1 of Article 14, and the provisions of Paragraph 2 and Paragraph 3 of said Article shall apply *mutatis mutandis* to the hearing set forth in Article 29 and Article 29-3, and the provisions of Paragraph 4 through Paragraph 6 of Article 14 shall apply *mutatis mutandis* to the measures set forth in Article 29 through Article 29-4.

(Article 33 Measures against Clearing Participant Having Ceased to be a Financial

## Instruments Business Operator)

A Clearing Participant shall forfeit its Clearing Qualification when any of the following events occurs to it:

(1) Where such Clearing Participant is a Securities Clearing Participant, JGB Futures Clearing Participant or Index Futures Clearing Participant, when it ceases to be a Financial Instruments Business Operator or Registered Financial Institution which has obtained registration of the operation with respect to the acts prescribed in Item 1 of Paragraph 1 of Article 28 of the Act<sup>\*1</sup>; or

(\*<sup>1</sup> in the case of a Securities Finance Company which has obtained Clearing Qualification pursuant to the application made under Paragraph 3 of Article 6, when it ceases to be a Securities Finance Company)

(2) Where such Clearing Participant is an FX Clearing Participant, when it ceases to be a Financial Instruments Business Operator or Registered Financial Institution which has obtained registration of the operation with respect to the acts prescribed in Item 3 of Paragraph 2 of Article 28 of the Act<sup>\*1</sup>; or

(\*<sup>1</sup> or, in the case where such FX Clearing Participant is an entity accepting commission of an Exchange FX Contract, registration of such business as well as the business relating to the act set forth in Paragraph 5 of the said Article)

(3) It has been dissolved.

## (Article 33-2 The Disciplinary Measures Assessment Committee)

1 When JSCC intends to take any of the measures set forth in Article 29, Article 29-2 or Article 29-3 with respect to a Clearing Participant, JSCC shall consult with the Disciplinary Measures Assessment Committee in advance about the appropriateness of taking the relevant measure and respect the opinion of the Committee.

2 Notwithstanding the provisions of the preceding Paragraph, when JSCC intends to take the measure set forth in Article 29-2<sup>\*1</sup> or when there otherwise is an urgent need therefor, JSCC shall be permitted to take such measure without consulting with the Disciplinary Measures Assessment Committee.

(\*<sup>1</sup> limited to those relating to contracts on the Clearing Participant's own account)

3 When JSCC takes measures of emergency suspension<sup>\*1</sup>, it shall immediately report such effect to the Disciplinary Measures Assessment Committee.

(\*<sup>1</sup> referring to suspension of assumption of all or a part of obligations under Article 29-5; the same applies hereinafter)

4 In addition to the provisions prescribed in the preceding three Paragraphs, matters concerning the Disciplinary Measures Assessment Committee shall be prescribed in other rules.

## (Article 34 Notice of Measures, etc.)

1 When JSCC is to suspend assumption of all or a part of obligations, or to revoke Clearing Qualification pursuant to these Business Rules<sup>\*1</sup>, JSCC shall notify to that effect in advance to the Designated Market Operator, in respect of which either the relevant Clearing Participant or a Non-Clearing Participant which has entered into the Contract for Commissioning Clearance with such Clearing Participant has a trading qualification or a membership, and also to its Designated Securities Finance Company<sup>\*2</sup>.

(\*<sup>1</sup> excluding the emergency suspension)

(\*<sup>2</sup> in the case where the relevant Clearing Participant is a Securities Finance Company<sup>\*2-1</sup>, to the Designated Market Operator which designated such Securities Finance Company as the Designated Securities Finance Company)

(\*<sup>2-1</sup> limited to the one which has obtained the Clearing Qualification pursuant to the application made under Paragraph 3 of Article 6)

2 When JSCC took measures of emergency suspension, it shall immediately notify such effect to the Designated Market Operator mentioned in the immediately preceding paragraph.

3 The provisions of Paragraph 1 shall apply *mutatis mutandis* to the case where a Clearing Participant has forfeited Clearing Qualification pursuant to Article 33. In such case, the word “in advance” in said Paragraph shall be deemed to be “immediately”.

4 When JSCC has, pursuant to these Business Rules, suspended assumption of all or a part of the obligations in respect of the Brokerage for Clearing of Securities, etc., or revoked Clearing Qualification of an Agency Clearing Participant; or when an Agency Clearing Participant has forfeited Clearing Qualification pursuant to the provisions of Article 33, the relevant Agency Clearing Participant shall immediately notify to that effect to the Non-Clearing Participants which have entered into the Contract for Commissioning Clearance with it, unless JSCC specifically approves in case of the emergency suspension.

5 When JSCC prohibits the Cross Margining Request pursuant to the provisions of Paragraph 1 of Article 29, the Clearing Participant subject to such measures must immediately notify the Cross Margining User<sup>\*1</sup> and the Cross Margining Accepting Party<sup>\*2</sup> under its Cross Margining Request of such effect.

(\*<sup>1</sup> as such term defined in Article 2.1.(13)-8 of the Interest Rate Swap Clearing Business Rules (hereinafter referred to as “IRS Business Rules”); the same applies hereinafter)

(\*<sup>2</sup> referring to an entity which gives notice of acceptance of a Cross Margining Request pursuant to the provisions of IRS Business Rules; the same applies hereinafter)

6 When JSCC has taken the measure set forth in Article 29-2<sup>\*1</sup> or the measure set forth in Article 29-3 with respect to a Clearing Participant, JSCC shall immediately notify to that effect to the Designated Market Operator relating to the contracts which have cross relation to the reason of the relevant measure.

(\*<sup>1</sup> limited to the measure with respect to the Margin)

7 When JSCC has prohibited Cross Margining Request, given a Clearing Participant

Instructions for Improvement, suspended assumption of all or a part of obligations, revoked Clearing Qualification, or given instructions for improvement on position holding pursuant to these Business Rules, JSCC shall notify to that effect to every Clearing Participant or publish to that effect not later than 6 months after the day on which such measure was taken; provided, however, that if JSCC deems necessary and appropriate taking into account the possible market impact should it make such notification or publication, JSCC may make such notification or publication not earlier than 6 months after the day on which such measure was taken.

- 8 In the event that JSCC makes notification or publication prescribed in the preceding Paragraph, JSCC shall set the extent to be notified or published on each applicable occasion taking into account the importance of the measures subject to such notification or publication, or the possible market impact should it make such notification or publication.
- 9 When a Clearing Participant has forfeited its Clearing Qualification pursuant to the provisions of Article 33, JSCC shall notify to that effect to each Clearing Participant having the Clearing Qualification of the same category.

(Article 35 Treatment of Clearing Participant whose Obligations have Ceased to be Assumed)

- 1 In the event that JSCC has suspended assumption of all or a part of the obligations pursuant to the provisions of this Chapter, the relevant Clearing Participant may, obtaining JSCC's approval, transfer its unsettled Contracts for Clearing to other Clearing Participants during the period of suspension.
- 2 In addition to the provisions of the preceding Paragraph, in the event that JSCC has suspended assumption of the obligations pursuant to Paragraph 1 Article 29 with respect to a Clearing Participant due to the disobedience of the instructions for improvement on position holding set forth in Article 29-3, JSCC may cause such Clearing Participant to transfer its unsettled Contracts for Clearing to other Clearing Participants or to make other arrangements that JSCC deems necessary.
- 3 When JSCC deems it necessary, it may cause other Clearing Participants to make the arrangements set forth in the preceding Paragraph. In such case, an entrustment agreement shall be deemed to have been formed between such other Clearing Participant and the Clearing Participant whose obligations ceased to be assumed by JSCC pursuant to said Paragraph.

(Article 36 Handling of Unsettled Contracts for Clearing belonging to such Entities as Those whose Clearing Qualification have been Revoked)

- 1 When JSCC has, pursuant to these Business Rules, revoked Clearing Qualification, or a Clearing Participant has forfeited its Clearing Qualification pursuant to Article 33, JSCC may cause the relevant Clearing Participant to transfer its unsettled Contracts for Clearing to other Clearing Participants or to make other arrangements that JSCC deems necessary.

- 2 When JSCC deems it necessary, it may cause other Clearing Participants to make the arrangements set forth in the preceding Paragraph. In such event, an entrustment agreement shall be deemed to have been formed between such other Clearing Participant and the relevant former Clearing Participant.
- 3 The relevant former Clearing Participant set forth in Paragraph 1 shall continue to be regarded as Clearing Participant for the purpose of settling the unsettled Contracts for Clearing belonging to such former Clearing Participant or of making arrangements, or otherwise to the extent JSCC deems necessary.

(Article 37 Recommendation to Clearing Participant)

- 1 When JSCC determines that the operational or financial condition of a Clearing Participant is not appropriate taking JSCC's operations of the Securities and Similar Contract Clearing Business into account, JSCC may recommend the relevant Clearing Participant to take appropriate measures.
- 2 In the event JSCC has made the recommendations set forth in the preceding Paragraph and determines that it is necessary to do so, JSCC may request the relevant Clearing Participant to submit a report with respect to its handling of the recommendations.

Chapter 3 Brokerage for Clearing of Securities, etc.

(Article 38 Contracts Eligible for Brokerage for Clearing of Securities, etc.)

1 The contracts which can be subject of the Brokering for Clearing of Securities, etc. to be executed by an Agency Clearing Participant are the Contracts Subject to Clearing set forth in Paragraph 2 of Article 3\*1.

(\*1 limited to those in respect of Item (1) through Item (9) and Item (11) of said Paragraph)

2 Each of the following contracts shall be regarded as being resulted from the Brokerage for Clearing of Securities, etc., and these Business Rules shall apply to these contracts accordingly: of the buying/selling of the underlying stocks resulting from the exercise of the option under Security Option Contract, those resulting from the exercise of the option under Security Option Contract by the entity which does not hold the Securities Clearing Qualification and from the exercise of the option under Security Option Contract through the Brokerage for Clearing of Securities, etc.; of JGB Futures Contracts resulting from the exercise of the option under Option Contract on JGB Futures set forth in Item (4) of said Paragraph, those resulting from the exercise of the option under Option Contract on JGB Futures through the Brokerage for Clearing of Securities, etc.; and, of the transactions resulting from the exercise of the option under Index Option Contract set forth in Item (6) of said Paragraph, those resulting from the exercise of the option under Index Option Contract through the Brokerage for Clearing of Securities, etc. Provided, however, that the foregoing does not apply to the buying/selling of the underlying stocks resulting from the exercise of the option under Security Option Contract pursuant to the commission of the Brokerage for Clearing of Securities, etc. from a Securities Clearing Participant.

3 Of the contracts prescribed in Item (2) through Item (6) of Paragraph 2 of Article 3, the contracts between JSCC and the Designated Clearing Participant of a Non-Clearing Participant resulting from the completion of the Give-up\*1 under which the relevant Non-Clearing Participant is also a Trading Participant Executing Clearance\*2 shall be regarded as resulting from the Brokerage for Clearing of Securities, etc., and these Business Rules shall apply to such contracts accordingly.

(\*1 referring to the Give-up prescribed by the Designated Market Operator\*1-1; the same applies hereinafter)

(\*1-1 limited to the Designated Market Operator which operates the Designated Financial Instruments Market prescribed in Item (2) through Item (6) of Paragraph 2 of Article 3)

(\*2 referring to the Trading Participant Executing Clearance prescribed in item (1) of Paragraph 1 of Article 46-2)

(Article 39 Conclusion of Contract for Commissioning Clearance with Non-Clearing Participant)

An Agency Clearing Participant to operate the Brokerage for Clearing of Securities, etc. is required to enter into the Contract for Commissioning Clearance— containing the provisions to the effect that when an Non-Clearing Participant is to form a Contract Subject to Clearing on behalf of a Clearing Participant, such Non-Clearing Participant shall be regarded as applying for the Brokerage for Clearing of Securities, etc., and such Clearing Participant shall be regarded as accepting the application, and other provisions prescribed by JSCC —with the Non-Clearing Participant which commissions the Brokerage for Clearing of Securities, etc.

(Article 40 Notification of Conclusion of Contract for Commissioning Clearance)

When an Agency Clearing Participant intends to enter into the Contract for Commissioning Clearance, such Agency Clearing Participant shall notify JSCC of its details in advance in accordance with the rules of JSCC.

(Article 41 Notification of Termination of Contract for Commissioning Clearance)

1 In terminating the Contract for Commissioning Clearance, the Agency Clearing Participant shall notify JSCC of its details as prescribed in the following Items, based on the classification of termination referenced in each Item:

(1) Termination by agreement

The Agency Clearing Participant shall submit a notice by three days before the day<sup>\*1</sup> on which it intends to terminate the Contract.

(\*1 excluding Non-business Days; the same applies hereinafter when counting the number of days)

(2) Termination resulting from a prior written notice of intention to terminate the Contract given by the Agency Clearing Participant to the Non-Clearing Participant<sup>\*1</sup>

(\*1 excluding the termination set forth in Item (5))

The Agency Clearing Participant shall submit a notice without delay after it has given the notice of intention to terminate.

(3) Termination resulting from a prior written notice of intention to terminate the Contract received by the Agency Clearing Participant from the Non-Clearing Participant.

The Agency Clearing Participant shall submit a notice without delay after it received the notice of intention to terminate.

(4) Termination resulting from the fact that the Non-Clearing Participant has fallen under an acceleration event with regard to the obligations under the contract pursuant to the commissions of the Brokerage for Clearing of Securities, etc.

The Agency Clearing Participant shall submit a notice by the day immediately preceding the day on which it intends to terminate the Contract.

(5) If the Agency Clearing Participant agreed with the Non-Clearing Participant on the condition that the Agency Clearing Participant may terminate the Contract for

Commissioning Clearance taking into account securing the performance of the obligations under the contract pursuant to the commissions of the Brokerage for Clearing of Securities, etc., termination resulting from a prior written notice of intention to cancel the Contract given by the Agency Clearing Participant to the Non-Clearing Participant due to the fact that such condition has been fulfilled.

The Agency Clearing Participant shall submit a notice immediately and by the day immediately preceding the day on which it intends to terminate the Contract.

- 2 In the event that JSCC has received the notice set forth in the preceding Paragraph, JSCC shall notify to that effect to the Designated Market Operators with respect to which the Non-Clearing Participant, which is the counterparty to the Contract to be terminated, has the trading qualification in respect of the transactions covered by the relevant Contract or a membership.

(Article 42 Segregation of Contracts Subject to Clearing)

Agency Clearing Participant shall manage the Contracts Subject to Clearing, segregating those pursuant to the Brokerage for Clearing of Securities, etc. from those that are not.

(Article 43 Transfer of Unsettled Contracts for Clearing in the case of Change of Designated Clearing Participant)

- 1 In the event that a Non-Clearing Participant has changed its Designated Clearing Participant in accordance with the rules of the Designated Market Operator, the unsettled Contracts for Clearing which are pursuant to the commissions of the Brokerage for Clearing of Securities, etc., from the relevant Non-Clearing Participant at the time of such change shall be transferred from the former Designated Clearing Participant to the new Designated Clearing Participant.
- 2 In the event that a Clearing Participant, which is a trading participant or a member of a Designated Market Operator, has forfeited its Clearing Qualification, and other Clearing Participant is to be designated as the Designated Clearing Participant pursuant to the rules of the Designated Market Operator, the Contracts for Clearing, belonging to the Clearing Participant forfeiting its Clearing Qualification which remain unsettled at the time of such designation, shall be transferred from the Clearing Participant forfeiting its Clearing Qualification to the Clearing Participant which is newly designated as the Designated Clearing Participant.

(Article 44 Transfer of Unsettled Contracts for Clearing, etc., When Non-Clearing Participant is Suspended from Commissioning the Brokerage for Clearing of Securities, etc.,)

- 1 In the event that a Designated Market Operator, with respect to which a Non-Clearing Participant has its trading qualification or membership, suspended or partly restricted the Non-Clearing Participant from commissioning the Brokerage for Clearing of Securities, etc.,

suspended or restricted the Non-Clearing Participant's membership, revoked the Non-Clearing Participant's trading qualification, or expelled the Non-Clearing Participant, JSCC shall, according to the details of the measures to be taken by the Designated Market Operator, cause the unsettled Contracts for Clearing which are pursuant to the commissions of the Brokerage for Clearing of Securities, etc., from the relevant Non-Clearing Participant to be transferred to other Clearing Participants or cause other necessary arrangements to be made.

- 2 The provisions of the preceding Paragraph shall not apply to the case where JSCC has suspended assumption of all or a part of the obligations or revoked the Clearing Qualification of the Designated Clearing Participant of the relevant Non-Clearing Participant.

(Article 45 Transfer of Unsettled Contracts for Clearing, etc., When Clearing Participant is Suspended from Trading in Securities, etc.,)

- 1 In the event that a Designated Market Operator, with respect to which a Clearing Participant has its trading qualification or membership, suspended or partly restricted the Clearing Participant from buying/selling securities, etc.\*1, suspended or restricted the Clearing Participant's membership, revoked the Clearing Participant's trading qualification, or expelled the Clearing Participant, JSCC shall, according to the details of the measures to be taken by the Designated Market Operator, cause the unsettled Contracts for Clearing belonging to such Clearing Participant to be transferred to other Clearing Participants or cause other necessary arrangements to be made.

(\*1 referring to buying/selling of securities and Market Transactions of Derivatives)

- 2 The provisions of the preceding Paragraph shall not apply to the case where JSCC has suspended assumption of all or a part of the obligations or revoked the Clearing Qualification of the relevant Clearing Participant.

(Article 45-2 Transfer of Unsettled Contracts, etc., When Clearing Participants Receive Instructions for Improvement)

- 1 In the event that a Clearing Participant which is a Non-Clearing Participant's Designated Clearing Participant receives the instructions for improvement on position holding pursuant to the provisions of Article 29-3 due to the relevant Non-Clearing Participant's failure to comply with the measure set forth in Paragraph 2 of Article 29-2 without a justifiable reason, such Clearing Participant shall have the right to request the relevant Non-Clearing Participant to settle its Unsettled Contracts pursuant to the commissions of the Brokerage for Clearing of Securities, etc. from the Non-Clearing Participant or to transfer them to other Clearing Participants.
- 2 In the event that a Clearing Participant receives the instructions for improvement on position holding set forth in the preceding Paragraph, if such Instructions cannot be complied with in

spite of reasonable efforts to comply with such Instructions and if the relevant Non-Clearing Participant fails to comply with the request set forth in the preceding Paragraph without a justifiable reason in spite of the Clearing Participant's submission of such request to the relevant Non-Clearing Participant in advance to provide a reasonable grace period, the Clearing Participant may, to the extent deemed reasonably necessary, execute the Offsetting-Sale<sup>\*1</sup> or Offsetting-Purchase<sup>\*2</sup>, or exercise the option<sup>\*3</sup> on the account of such Non-Clearing Participant, in order to settle such the Unsettled Contracts pursuant to the commissions of the Brokerage for Clearing of Securities, etc. from such Non-Clearing Participant.

(\*1 referring to the contract which is the opposite of the Long Position<sup>\*1-1</sup>; the same applies hereinafter)

(\*1-1 referring to the amount pertaining to the buying contract, out of the amount<sup>\*1-1-1</sup> under an Unsettled Contract relating to Futures and Option Contracts or Exchange FX Contracts; the same applies hereinafter)

(\*1-1-1 hereinafter referred to as the "Position")

(\*2 referring to the contract which is the opposite of the Short Position<sup>\*2-1</sup>; the same applies hereinafter)

(\*2-1 referring to the amount pertaining to the selling contracts out of the Position; the same applies hereinafter)

(\*3 including the commission thereof)

Chapter 4 Assumption of Obligations

(Article 46 Assumption of Obligations)

1 The assumption of obligations by JSCC as the Securities and Similar Contract Clearing Business shall be done as prescribed in the following Items, based on the classification referenced in each Item:

(1) Contract Subject to Clearing listed in Item (1), Item (3), Item (5), Item (10) or Item (11) of Paragraph 2 of Article 3;

When a Contract Subject to Clearing is formed pursuant to the rules of the Designated Market Operator<sup>\*1</sup>, JSCC shall, in respect of the relevant Contract Subject to Clearing, assume the selling Clearing Participant's obligations owed to the buying Clearing Participant which is the selling Clearing Participant's counterparty in such a manner to discharge the relevant selling Clearing Participant from the relevant obligation, and simultaneously such selling Clearing Participant shall newly incur the obligations owed to JSCC which are equivalent to those assumed by JSCC; at the same time, JSCC shall assume the buying Clearing Participant's obligations owed to the selling Clearing Participant which is the buying Clearing Participant's counterparty in such a manner to discharge the relevant buying Clearing Participant from the relevant obligations, and simultaneously such buying Clearing Participant shall newly incur the obligations owed to JSCC which are equivalent to those assumed by JSCC.

(\*1 in the case of the Contract Subject to Clearing prescribed in Item (10) of Paragraph 2 of Article 3, pursuant to the rules of JSCC)

(2) Contract Subject to Clearing listed in Item (2), Item (4) or Item (6) of Paragraph 2 of Article 3;

When a Contract Subject to Clearing is formed pursuant to the rules of the Designated Market Operator, JSCC shall, in respect of the relevant Contract Subject to Clearing, succeed to the position<sup>\*1</sup> of the option seller in respect of the option held by the buying Clearing Participant which is the selling Clearing Participant's counterparty, and simultaneously such selling Clearing Participant shall hold the position of the seller of a new option opposite to JSCC which is equivalent to the one which was succeeded to by JSCC. In such case, JSCC shall assume the relevant buying Clearing Participant's obligations to pay the contract price owed to the relevant selling Clearing Participant in such a manner to discharge such buying Clearing Participant from the relevant obligations, and simultaneously such buying Clearing Participant shall newly incur the obligations owed to JSCC which are equivalent to those assumed by JSCC.

(\*1 excluding the right to claim for the contract price)

(3) Contract Subject to Clearing listed in Item (7) through Item (9) of Paragraph 2 of Article 3.

When JSCC has received the notification made in accordance with the rules of JSCC

from a Designated Securities Finance Company regarding the details of the obligations which should be assumed by JSCC, JSCC shall, after affirming the contents of the notification and pursuant to the contents, assume the Designated Securities Finance Company's obligations\*<sup>1</sup> owed to the Clearing Participant which is the Designated Securities Finance Company's counterparty in such a manner to discharge the Designated Securities Finance Company from the relevant obligations, and such Designated Securities Finance Company shall newly incur the obligations owed to JSCC which are equivalent to those assumed by JSCC; at the same time, JSCC shall assume the Clearing Participant's obligations\*<sup>2</sup> owed to the Designated Securities Finance Company which is the Clearing Participant's counterparty in such a manner to discharge the Clearing Participant from the relevant obligations, and such Clearing Participant shall newly incur the obligations owed to JSCC which are equivalent to those assumed by JSCC.

(\*<sup>1</sup> referring to the monetary obligations or the obligations to deliver Stocks And The Like in respect of: a lending under the Money/Securities Loan Transaction; a return of the Collateral, etc. resulting from a return of the lent object under the Money/Securities Loan Transaction\*<sup>1-1</sup>; a delivering of the Collateral, etc. resulting from the borrowing under the Securities Lending Transaction; and a return of the borrowed object under the Securities Lending Transaction)

(\*<sup>1-1</sup> in the case of returning the Collateral, etc. in respect of a lending/borrowing of Stocks And The Like\*<sup>1-1-1</sup>, referring to the return of the Cash Collateralizing a Loan (lending) of Stock and the Like\*<sup>1-1-2</sup> in the amount which should be returned on the date of the return of the lent object as prescribed by the Rules for Money/Securities Loan Transaction)

(\*<sup>1-1-1</sup> referring to the Stocks And The Like prescribed in Item (7) of Paragraph 2 of Article 3; the same applies in this Article)

(\*<sup>1-1-2</sup> referring to the cash collateralizing a lending of stocks and the like made by the Designated Securities Finance Company as stipulated in the Rules for Money/Securities Loan Transaction)

(\*<sup>2</sup> referring to the monetary obligations or the obligations to deliver Stocks And The Like in respect of: a lending under the Securities Lending Transaction; a return of the Collateral, etc. resulting from a return of the lent object under the Securities Lending Transaction\*<sup>2-1</sup>; a delivering of the Collateral, etc. resulting from a borrowing under the Money/Securities Loan Transaction, and a return of the borrowed object under the Money/Securities Loan Transaction\*<sup>2-2</sup>)

(\*<sup>2-1</sup> referring to the return of the Cash Collateralizing a Loan (borrowing) of Stock and the Like\*<sup>2-1-1</sup> in the amount which should be returned on the date of the return of the lent object as prescribed by the Rules for Money/Securities Loan Transaction)

(\*<sup>2-1-1</sup> referring to the cash collateralizing a borrowing of stocks and the like made

by the Designated Securities Finance Company as stipulated in the Rules for Money/Securities Loan Transaction)

(\*2.2 in the case of returning the money borrowed under a cash loan, referring to the repayment of money in the amount which should be repaid on the repayment date pursuant to the Rules for Money/Securities Loan Transaction)

2 JSCC shall notify the relevant Clearing Participant of the details of the obligations JSCC assumed pursuant to the provisions of the preceding Paragraph and the matters which are necessary for settling those obligations.

3 When the Clearing Participant has received the notification set forth in the preceding Paragraph, it shall immediately affirm its contents.

(Article 46-2 Extinguishment and New Incurrence of Obligations Resulting from Completion of the Give-up)

1 In the event where the Give-up is completed in accordance with the rules prescribed by the Designated Market Operator<sup>\*1</sup>, the provisions of the following Items shall apply to the obligations set forth in Paragraph 1 of the preceding Article, depending upon the classifications set forth in such Items:

(\*1 limited to a Designated Market Operator which establishes the Designated Financial Instruments Market set forth in Item (2) through Item (6) of Paragraph 2 of Article 3; the same applies hereinafter in this Article)

(1) Contracts Subject to Clearing listed in Item (3) or Item (5) of Paragraph 2 of Article 3  
When the Give-up is completed in accordance with the rules prescribed by the Designated Market Operator, with respect to the Contract Subject to Clearing which is extinguished as a result of the completion of the Give-up, JSCC's obligations owed to the Clearing Participant<sup>\*1</sup> which is also the Trading Participant Executing Trade<sup>\*2</sup> pursuant to the provisions of Item (1) of Paragraph 1 of the preceding Article and the obligations of such Clearing Participant which is also the Trading Participant Executing Trade owed to JSCC shall become extinguished prospectively; at the same time, with respect to the Contract Subject to Clearing which is extinguished as a result of the completion of the Give-up, JSCC shall newly incur obligations owed to the Clearing Participant<sup>\*3</sup> which is also the Trading Participant Executing Clearance<sup>\*4</sup>, which are equivalent to those which JSCC owed to the relevant Clearing Participant which is also the Trading Participant Executing Trade, and the relevant Clearing Participant which is also the Trading Participant Executing Clearance shall newly incur obligations owed to JSCC which are equivalent to those which the relevant Clearing Participant which is also the Trading Participant Executing Trade owed to JSCC.

(\*1 in the case where the relevant Trading Participant Executing Trade is a Non-Clearing Participant, referring to its Designated Clearing Participant; the same applies hereinafter in this Article)

- (\*<sup>2</sup> referring to the Trading Participant Executing Trade prescribed by the Designated Market Operator; the same applies hereinafter)
- (\*<sup>3</sup> in the case where the relevant Trading Participant Executing Clearance is a Non-Clearing Participant, referring to its Designated Clearing Participant; the same applies hereinafter in this Article)
- (\*<sup>4</sup> referring to the Trading Participant Executing Clearance prescribed by the Designated Market Operator; the same applies hereinafter)
- (2) Contracts Subject to Clearing listed in Item (2), Item (4) or Item (6) of Paragraph 2 of Article 3
- A) In the case where the Trading Participant Executing Trade is a selling Clearing Participant
- When the Give-up is completed in accordance with the rules prescribed by the Designated Market Operator, with respect to the Contract Subject to Clearing which is extinguished as a result of the completion of the Give-up, the position of the option seller opposite to JSCC that is held by the Clearing Participant which is also the Trading Participant Executing Trade and JSCC's obligations owed to the relevant Clearing Participant which is also the Trading Participant Executing Trade, pursuant to the provisions of Item (2) of Paragraph 1 of the preceding Article, shall become extinguished prospectively; at the same time, with respect to the Contract Subject to Clearing which is extinguished as a result of the completion of the relevant Give-up, the Clearing Participant which is also the Trading Participant Executing Clearance shall newly hold the position which is equivalent to that of the option seller opposite to JSCC held by the relevant Clearing Participant which is also the Trading Participant Executing Trade, and JSCC shall newly incur obligations owed to the relevant Clearing Participant which is also the Trading Participant Executing Clearance, which are equivalent to those which JSCC owed to the relevant Clearing Participant which is also the Trading Participant Executing Trade.
- B) In the case where the Trading Participant Executing Trade is a buying Clearing Participant
- When the Give-up is completed in accordance with the rules prescribed by the Designated Market Operator, with respect to the Contract Subject to Clearing which is extinguished as a result of the completion of the Give-up, the position of the option seller which is succeeded by JSCC from the selling Clearing Participant and the obligations owed to JSCC by the Clearing Participant which is also the Trading Participant Executing Trade, pursuant to the provisions of Item (3) of Paragraph 1 of the preceding Article, shall become extinguished; at the same time, with respect to the Contract Subject to Clearing which is extinguished as a result of the completion of the relevant Give-up, JSCC shall newly hold the position opposite to the Clearing Participant which is also the Trading Participant Executing Clearance, which is

equivalent to that of the option seller which JSCC had succeeded from the selling Clearing Participant, and the relevant Clearing Participant which is also the Trading Participant Executing Clearance shall newly incur obligations owed to JSCC, which are equivalent to those which the relevant Clearing Participant which is also the Trading Participant Executing Trade owed to JSCC.

2 The provisions of Paragraph 2 and Paragraph 3 of the preceding Article shall apply *mutatis mutandis* when the preceding Paragraph applies.

## Chapter 4-2 Management of Futures and Option Contracts

## (Article 46-3 Management of Clearing Participant's Futures and Option Contracts)

A Clearing Participant must manage the Futures and Option Contracts that are its Contracts Subject to Clearing\*<sup>1</sup> through any of the account classifications listed below according to the below-listed classification:

(\*<sup>1</sup> excluding contracts under commission of the Brokerage for Clearing of Securities, etc. of Non-Clearing Participants)

## (1) Contracts on its own account:

Proprietary account

## (2) Contracts commissioned by customers that does not fall under the classification of Item (3) below:

a. Omnibus Account\*<sup>1</sup>

b. Individual Segregated Account\*<sup>2</sup>

(\*<sup>1</sup> referring to an account for the management of Futures and Option Contracts of multiple customers or at the level of the granularity into which a customer position is arbitrarily split; the same applies hereinafter)

(\*<sup>2</sup> referring to an account for the management of Futures and Option Contracts of a single customer or at the level of the granularity into which a customer position is arbitrarily split; the same applies hereinafter)

## (3) Contracts on Affiliate's account:

a. Affiliate's omnibus account

b. Affiliates Individual Segregated Account

## (Article 46-4 Management of Agency Clearing Participant's Futures and Option Contracts)

An Agency Clearing Participant must manage the Futures and Option Contracts that are its Contracts Subject to Clearing\*<sup>1</sup> through any of the account classifications listed below according to the below-listed classification:

(\*<sup>1</sup> limited to contracts under commission of the Brokerage for Clearing of Securities, etc. of Non-Clearing Participants)

## (1) Contracts on the proprietary account of the relevant Non-Clearing Participant:

Proprietary account of that Non-Clearing Participant

## (2) Contracts under commission by customer of the relevant Non-Clearing Participant

a. Omnibus account of that Non-Clearing Participant

b. Individual Segregated Account of that Non-Clearing Participant

Chapter 5 Settlement of Contracts for ClearingSection 1 Settlement of Contracts for Clearing on Stocks, etc.

(Article 47 Classification of Settlement Method)

1 Contracts for Clearing<sup>\*1</sup> shall be settled either by the settlement method in which the securities are delivered to the receiving Securities Clearing Participant by JSCC only to the extent of the amount and the like of securities and money delivered to JSCC by such Securities Clearing Participant pursuant to Article 53<sup>\*2</sup>, or by other settlement methods<sup>\*3</sup>.

(\*1 limited to the contracts on securities<sup>\*1-1</sup> and excluding the securities lending/borrowing prescribed in Article 64; the same applies hereinafter in this Section)

(\*1-1 excluding Japanese Government Bonds)

(\*2 hereinafter referred to as “DVP Settlement”)

(\*3 hereinafter referred to as “Non-DVP Settlement”)

2 The settlement of the Contracts for Clearing on the securities listed in each of the following Items<sup>\*1</sup> shall be conducted by DVP Settlement, and the settlement of the Contracts for Clearing on the securities other than the Securities Eligible for DVP Settlement shall be conducted by Non-DVP Settlement:

(\*1 hereinafter referred to as the “Securities Eligible for DVP Settlement”)

(1) Stocks issued by domestic corporations<sup>\*1</sup>;

(\*1 including stock acquisition right securities and preferred equity capital contribution issued by a domestic corporation)

(2) Stocks issued by foreign corporations<sup>\*1</sup>;

(\*1 including stock acquisition right securities and depositary receipts for foreign stocks issued by a foreign corporation)

(3) Investment trust beneficiary securities, investment securities<sup>\*1</sup>, foreign investment trust beneficiary securities and foreign investment securities;

(\*1 including Investment securities acquisition right securities)

(4) Beneficiary securities of beneficiary securities issuing trusts and beneficiary securities of foreign beneficiary securities issuing trusts;

(5) Covered warrants; and

(6) Convertible Bonds<sup>\*1\*2</sup>.

(\*1 referring to the convertible-bond-type corporate bonds with stock acquisition rights where the object of the capital contribution to be made upon the exercise of the right under such stock acquisition right is the corporate bond in respect of such corporate bond with stock acquisition rights; the same applies hereinafter)

(\*2 excluding the one not handled by the Japan Securities Depository Center<sup>\*2-1</sup> for its book-entry transfer business<sup>\*2-2</sup>)

(\*2-1 hereinafter referred to as “JASDEC”)

(\*2.2 hereinafter referred to as the “Convertible Bonds Not Handled by JASDEC”)

3 Notwithstanding the provisions of the preceding Paragraph, the settlement listed in each of the following Items shall be conducted in accordance with the provisions of the relevant Item.

(1) Settlement of Contracts for Clearing in respect of a buying/selling transaction which is to be settled on the day of its conclusion\*<sup>1</sup> and in respect of When-Issued Transaction\*<sup>2</sup>

(\*<sup>1</sup> hereinafter referred to as the “Same-Day Transaction”)

(\*<sup>2</sup> referring to the when-issued transactions prescribed in Paragraph 2 of Article 1 of Ordinance of Cabinet Office Concerning the Transaction Stipulated in Article 161-2 of the Financial Instruments and Exchange Act and the Security Money Therefor (Ordinance of the Ministry of Finance No. 75 of 1953); the same applies hereinafter)

The settlement shall be conducted by Non-DVP Settlement.

(2) Settlement of purchase for Buy-In

DVP Settlement and Non-DVP Settlement shall be applied respectively to different occasions: the delivery/receipt of money and securities prescribed in Paragraph 3 of Article 50 shall be conducted by DVP Settlement; the payment/receipt of money prescribed in Item (2) of Paragraph 1 of Article 54 shall be conducted by Non-DVP Settlement.

(3) Settlement of the sale against the purchase for Buy-In

The settlement shall be conducted by Non-DVP Settlement.

(4) In the event buying/selling was realized as a result of Buy-In, delivery of the securities\*<sup>1</sup> to the receiving Securities Clearing Participant which requested for Buy-In and the accompanying payment/receipt of money to be made on the day of the settlement of such buying/selling\*<sup>2</sup>

(\*<sup>1</sup> limited to the delivery of the securities that was deferred pursuant to Article 62 due to Delivery Failures and limited to the volume corresponding to the volume of the securities in respect of which buying/selling was realized as a result of such Buy-In)

(\*<sup>2</sup> hereinafter referred to as the “Settlement of Failed Transaction by Buy-In”)

The settlement shall be conducted by Non-DVP Settlement.

(5) Settlement of the obligation under the buying/selling of the underlying securities resulting from the exercise of the option under Security Option Contract\*<sup>1</sup>

(\*<sup>1</sup> limited to the buying/selling in respect of Security Option other than the Security Option which enables the buying or selling to be realized in the Trading Units\*<sup>1-1</sup> at the exercise price)

(\*<sup>1-1</sup> referring to the trading unit prescribed by the Designated Market Operator; the same applies hereinafter)

DVP Settlement and Non-DVP Settlement shall be applied respectively to different occasions: the delivery/receipt of money and securities prescribed in Item (1) A) of Paragraph 1 of Article 55 shall be conducted by DVP Settlement, and the payment/receipt of money prescribed in Item (1) B) and Item (2) of said Paragraph shall be conducted by

## Non-DVP Settlement.

## (Article 48 Settlement Cutoff Time)

1 Settlement Cutoff Time for DVP Settlement shall be in accordance with each of the following Items:

- (1) As for a payment/receipt of money, payment shall be completed by 2:15 P.M. and receipt shall be completed at 2:45 P.M.;
- (2) As for a delivery/receipt of securities, delivery shall be completed by 1:00 P.M. and receipt shall be completed by 2:15 P.M.

2 Settlement Cutoff Time for Non-DVP Settlement shall be in accordance with each of the following Items:

- (1) As for a payment/receipt of money, payment shall be completed by 1:00 P.M. and receipt shall be completed at 2:45 P.M.;
- (2) Delivery and receipt of securities shall be completed by 2:45 P.M.

3 The provisions of the preceding Paragraph shall not apply to the Same-Day Transaction.

## (Article 49 Uniform DVP Settlement Price)

JSCC shall set a Uniform DVP Settlement Price in respect of each issue to be settled by DVP Settlement on a daily basis in accordance with the rules of JSCC.

## (Article 50 Money and Securities Transferred for DVP Settlement)

1 The amount of money and the quantity of securities to be delivered or received by a Securities Clearing Participant for DVP Settlement shall be in accordance with each of the following Items:

(1) The amount of money shall be the amount stipulated in (a) below plus/minus the amount stipulated in (b) and (c):

- (a) The difference between the Total Value of the securities sold and the Total Value of the securities purchased, calculated at Uniform DVP Settlement Prices  
The difference between the Total Value<sup>\*1</sup> of the securities for sale<sup>\*2</sup> and the Total Value of the securities for purchase<sup>\*3</sup> in respect of the relevant Securities Clearing Participant's Contracts Subject to Clearing having that given day as their settlement day<sup>\*4</sup>;

(\*1 referring to the total sum of the products of Uniform DVP Settlement Price of each issue as for the settlement day multiplied by the number of the security<sup>\*1-1</sup>; the same applies hereinafter)

(\*1-1 in the case of an interest-bearing Convertible Bond, add Unit-Based Accrued Interest<sup>\*1-1-1</sup> in respect of that Bond as of that settlement day except where such day falls on the interest payment date)

(\*1-1-1 referring to the product of Accrued Interest<sup>\*1-1-1-1</sup> per trading unit multiplied

by the number obtained by dividing the relevant number of the security by the number of the security comprising one trading unit; the same applies hereinafter)

(\*<sup>1-1-1</sup> referring to the accrued interest prescribed by the Designated Market Operator in respect of buying/selling of an interest-bearing Convertible Bond; the same applies hereinafter in this Section)

(\*<sup>2</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of Paragraph 2 of Article 3, the securities to be delivered)

(\*<sup>3</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of Paragraph 2 of Article 3, the securities to be received)

(\*<sup>4</sup> referring to the settlement day<sup>\*<sup>4-1</sup></sup> prescribed by the Designated Market Operator in respect of the Contracts Subject to Clearing<sup>\*<sup>4-2</sup></sup>; the same applies hereinafter)

(\*<sup>4-1</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of Paragraph 2 of Article 3, the delivery day prescribed by the Designated Securities Finance Company)

(\*<sup>4-2</sup> only with respect to the Contracts Subject to Clearing prescribed in Item (1) and Item (7) through Item (10) of Paragraph 2 of Article 3, and the buying/selling of the underlying securities formed as a result of the exercise of the option under Security Option Contract are included; the same applies hereinafter until Article 52)

(b) The difference between contract price and Uniform DVP Settlement Price

In respect of the relevant Securities Clearing Participant's Contracts Subject to Clearing having that given day as their settlement day, the value equivalent to the difference between their respective contract prices<sup>\*<sup>1</sup></sup> and their respective Uniform DVP Settlement Prices as for that settlement day; and

(\*<sup>1</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of Paragraph 2 of Article 3, referring to the lending/borrowing prices set by each Designated Securities Finance Company; the same applies hereinafter)

(c) The difference between Accrued Interest and Unit-Based Accrued Interest

In respect of the relevant Securities Clearing Participant's Contracts Subject to Clearing on an interest-bearing Convertible Bond having that given day as their settlement day, the value equivalent to the difference between the Accrued Interest and Unit-Based Accrued Interest in respect of each issue.

(2) In respect of the relevant Securities Clearing Participant's Contracts Subject to Clearing having that given day as their settlement day, the quantity of the securities shall be the difference between the quantity for delivery and that for receipt in respect of each issue.

2 In the case where delivery of securities and accompanied payment/receipt of money are deferred to that given day pursuant to the provisions of Article 62 due to Delivery Failures occurred on the day immediately preceding that given day<sup>\*<sup>1\*2</sup></sup>, the amount of money and

quantity of securities prescribed in each of the following Items shall be included, as pertaining to such deferment, in the computation of the amount of money and the quantity of securities to be transferred for DVP Settlement set forth in the preceding Paragraph:

(\*<sup>1</sup> in the case of an interest-bearing Convertible Bond, if such given day falls on the interest payment date<sup>\*1-1</sup>, Delivery Failures occurred on the second preceding day; the same applies in Item (7) of Paragraph 1 of Article 53)

(\*<sup>1-1</sup> when the interest payment date falls on a bank holiday and the interest is paid before that interest payment date, the date on which the relevant interest is paid; the same applies hereinafter in this Section)

(\*<sup>2</sup> excluding money and securities pertaining to the Settlement of Failed Transaction by Buy-In to be conducted on that day)

(1) The amount of money set forth below<sup>\*1</sup>:

(\*<sup>1</sup> in the case of an interest-bearing Convertible Bond, if such day falls on the interest payment date, the amount of money prescribed in (a) and (b) below)

(a) The Total Value of the securities the delivery of which was deferred pursuant to the provisions of Paragraph 1 of Article 62 in the case of a delivering Securities Clearing Participant<sup>\*1</sup> and the Total Value of the securities the receipt of which was deferred pursuant to the provisions of Paragraph 2 of the same Article in the case of a receiving Securities Clearing Participant<sup>\*2</sup>;

(\*<sup>1</sup> hereinafter referred to as the "Securities Failed to be Delivered" in this Chapter)

(\*<sup>2</sup> hereinafter referred to as the "Securities Failed to be Received" in this Chapter)

(b) The value equivalent to the difference between the Uniform DVP Settlement Price as of that given day and the Uniform DVP Settlement Price as of the day immediately preceding day<sup>\*1</sup> in respect of the Securities Failed to be Delivered and the Securities Failed to be Received; and

(\*<sup>1</sup> in the case of an interest-bearing Convertible Bond, if that given day falls on the interest payment date, the Uniform DVP Settlement Price as of the second preceding day; the same applies hereinafter in Item (1) (b) of Paragraph 3 of this Article, Item (7) and Item (9) of Paragraph 1 of Article 53, and Item (2) and Item (4) of Paragraph 1 of Article 54)

(c) In the case of an interest-bearing Convertible Bond, the value equivalent to the difference between the Unit-Based Accrued Interest as of that given day and the Unit-Based Accrued Interest as of the day immediately preceding day in respect of the Securities Failed to be Delivered and the Securities Failed to be Received.

(2) The quantity of the Securities Failed to be Delivered and/or the quantity of the Securities Failed to be Received in respect of each issue.

3 In the event that the purchasing for Buy-In has been formed, the amount of the money and the quantity of the securities prescribed in each of the following Items shall be included in the computation set forth in Paragraph 1 for the amount of the money and the quantity of

the securities to be delivered or received for the DVP Settlement in respect of the Securities Clearing Participant which performed the purchasing for Buy-In:

(1) The amount of money listed below\*<sup>1</sup>:

(\*<sup>1</sup> in the case of an interest-bearing Convertible Bond, if such day falls on an interest payment date, the amount of money prescribed in (a) and (b) below)

(a) The Total Value of the securities purchased for Buy-In which are to be settled on that day pursuant to Paragraph 2 of Article 63;

(b) The value equivalent to the difference between the Uniform DVP Settlement Price as of that given day and the Uniform DVP Settlement Price as of the day immediately preceding day in respect of the securities purchased for Buy-In which are to be settled on that day pursuant to Paragraph 2 of Article 63; and

(c) In the case of an interest-bearing Convertible Bond, the value equivalent to the difference between the Unit-Based Accrued Interest as of that given day and the Unit-Based Accrued Interest as of the day immediately preceding day in respect of the securities purchased for Buy-In which are to be settled on that day pursuant to Paragraph 2 of Article 63.

(2) The quantity of the securities in respect of each issue purchased for Buy-In which are to be settled on that day pursuant to Paragraph 2 of Article 63.

4 In the case where delivery of securities and the accompanied payment/receipt of money are to be deferred pursuant to Article 62 due to an occurrence of Delivery Failures on that day, the amount of the money and the quantity of the securities prescribed in each of the following Items shall be excluded, as pertaining to such deferment, from the computation set forth in Paragraph 1 for the amount of money and the quantity of securities to be delivered or received for DVP Settlement:

(1) The Total Value of the Securities Failed to be Delivered and the Total Value of the Securities Failed to be Received;

(2) The quantity of the Securities Failed to be Delivered and/or the quantity of the Securities Failed to be Received in respective of each issue.

(Article 51 Provisional Payment for DVP Settlement)

1 In the case where the amount of money to be paid or received for DVP Settlement which is provisionally calculated in accordance with the preceding Article\*<sup>1</sup> on the assumption that no Delivery Failure will occur on that given day\*<sup>2</sup> turns out to be payable by an Securities Clearing Participant, such Securities Clearing Participant shall deposit the Provisional Payment Amount for DVP Settlement with JSCC by 1:00 P.M. on that day in order to secure the performance of the obligation of such Securities Clearing Participant under the Contracts Subject to Clearing owed to JSCC.

(\*<sup>1</sup> excluding Paragraph 4)

(\*<sup>2</sup> hereinafter referred to as the "Provisional Payment Amount for DVP Settlement")

2 Upon the final determination of the amount of money to be paid or received for DVP Settlement prescribed in the preceding Article\*<sup>1</sup>, the Provisional Payment Amount for DVP Settlement deposited with JSCC pursuant to the provisions of the preceding Paragraph shall be applied toward the payment of the Payment Amount for DVP Settlement. In such case, if the Payment Amount for DVP Settlement turns out to be less than the Provisional Payment Amount for DVP Settlement deposited with JSCC pursuant to the provisions of the preceding Paragraph due to an occurrence of Delivery Failures on that day, the Securities Clearing Participant shall receive from JSCC a refund of the money equivalent to the surplus portion of the Provisional Payment Amount for DVP Settlement at 2:45 P.M. on that day.

(\*<sup>1</sup> hereinafter referred to as the "Payment Amount for DVP Settlement")

3 The payment and receipt set forth in the preceding two Paragraphs shall be made in accordance with the rules of JSCC.

(Article 52 Settlement-Facilitating Security Money for DVP Settlement)

1 In respect of DVP Settlement, a Securities Clearing Participant may deposit with JSCC Security Money for Facilitating DVP Settlement until 2 P.M. on the settlement day in order to secure the performance of the obligation of such Securities Clearing Participant under the Contracts Subject to Clearing owed to JSCC so that such Securities Clearing Participant will be able to receive securities before making a deposit of the Provisional Payment Amount for DVP Settlement and/or delivery of securities.

2 Cash may be deposited as the Security Money for Facilitating DVP Settlement, but only in any of the currencies designated by JSCC. In this case, the appraisal value of the cash deposited in a currency other than Japanese yen shall be the amount equal to the value of cash in that currency converted to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of that currency in the Tokyo foreign exchange market on the day which is two days before the date of deposit multiplied by a certain rate determined by JSCC.

3 The Security Money for Facilitating DVP Settlement may be deposited in the form of securities\*<sup>1</sup> in lieu of cash in accordance with the rules of JSCC.

(\*<sup>1</sup> limited to those JSCC deems appropriate taking the liquidity and other factors into account)

4 The substituting value of the securities prescribed in the preceding Paragraph shall be calculated by multiplying the market price, as determined by JSCC, of the relevant securities as of the day which precedes the settlement day by two days, by a certain rate determined by JSCC; provided, however, that in cases such as an excessive fluctuation in the market, JSCC may extraordinarily change the substituting value when JSCC deems it particularly necessary to do so.

5 In addition to the provisions set forth in the preceding two Paragraphs, matters concerning the securities in lieu of cash for the Security Money for Facilitating DVP Settlement shall be

prescribed by JSCC.

(Article 53 Limitation on Delivery of Securities from JSCC to Receiving Securities Clearing Participant in DVP Settlement)

1 In DVP Settlement, the delivery of the securities from JSCC to the receiving Securities Clearing Participant shall be made in accordance with the rules of JSCC to the extent that the Total Value of the securities to be so delivered does not exceed the amount obtained by; subtracting the amount stipulated in Item (4) from the total sum of the values stipulated in Item (1) through Item (3), and then adding or subtracting the values stipulated in Item (5) through Item (10)\*<sup>1</sup> to or from the difference:

(\*<sup>1</sup> in the case of an interest-bearing Convertible Bond, if the given day falls on the interest payment date, excluding Item (8) and Item (10))

(1) The Total Value of the securities delivered to JSCC by the relevant receiving Securities Clearing Participant;

(2) The amount of money the relevant receiving Securities Clearing Participant deposited with JSCC as the Provisional Payment Amount for DVP Settlement plus the amount of money it paid to JSCC as the Payment Amount for DVP Settlement\*<sup>1</sup>;

(\*<sup>1</sup> excluding the portion of the amount which is applied toward the payment pursuant to the provisions of Paragraph 2 of Article 51)

(3) The value of the Security Money for Facilitating DVP Settlement deposited with JSCC by the relevant receiving Securities Clearing Participant in accordance with the provisions of the preceding Article;

(4) The Total Value of the securities delivered to the relevant receiving Securities Clearing Participant by JSCC\*<sup>1</sup>;

(\*<sup>1</sup> the value is calculated by excluding the securities to which the provisions of the following Paragraph applies)

(5) The value equivalent to the difference between the contract prices and the Uniform DVP Settlement Prices on that given day, as prescribed in Item (1) (b) of Paragraph 1 of Article 50;

(6) In respect of an interest-bearing Convertible Bond, the value equivalent to the difference between the Accrued Interest and the Unit-Based Accrued Interest as of that given day, as prescribed in Item 1 (c) of Paragraph 1 of Article 50;

(7) The value equivalent to the difference between the Uniform DVP Settlement Prices as of that given day and the Uniform DVP Settlement Prices as of the day immediately preceding day in respect of the Delivery Failures which occurred on such immediately preceding day, as prescribed in Item (1) (b) of Paragraph 2 of Article 50;

(8) In respect of an interest-bearing Convertible Bond, the value equivalent to the difference between the Unit-Based Accrued Interest as of that given day and the Unit-Based Accrued Interest as of the day immediately preceding day in respect of the

Delivery Failures which occurred on such immediately preceding day, as prescribed in Item (1) (c) of Paragraph 2 of Article 50;

- (9) The value equivalent to the difference between the Uniform DVP Settlement Price as of that given day and the Uniform DVP Settlement Price as of the day immediately preceding day in respect of the securities purchased for Buy-In which are to be settled on that given day, as prescribed in Item (1) (b) of Paragraph 3 of Article 50; and
- (10) In respect of an interest-bearing Convertible Bond, the value equivalent to the difference between the Unit-Based Accrued Interest as of that given day and the Unit-Based Accrued Interest as of the immediately preceding day in respect of the securities purchased for Buy-In which are to be settled on that given day, as prescribed in Item (1) (c) of Paragraph 3 of Article 50.

2 Notwithstanding the provisions of the preceding Paragraph, the delivery by JSCC to a receiving Securities Clearing Participant of the Convertible Bonds in respect of which that given day falls on the days\*<sup>1</sup> prescribed in Item 2 or Item 3 of Paragraph 3 of Article 64 shall be made in accordance with the rules of JSCC.

(\*<sup>1</sup> if such day falls on a Non-business Day, the day immediately preceding such day)

(Article 54 Money and Securities Transferred for Non-DVP Settlement)

1 The amount of money and the quantity of securities delivered or received by a Securities Clearing Participant for Non-DVP Settlement shall be in accordance with each of the following Items:

(1) Settlement of Same-Day Transaction

In respect of the same Securities Clearing Participant, the difference between the total amount of sales proceeds and the total amount of purchase money, and the difference between the quantity of securities sold and the quantity of securities purchased in respect of each issue.

(2) Settlement of purchase for Buy-In

The value equivalent to the difference between the contract price for the relevant purchases with the same settlement day made by the same Securities Clearing Participant, and the Uniform DVP Settlement Price as of the day immediately preceding the settlement day\*<sup>1</sup>

(\*<sup>1</sup> in respect of an interest-bearing Convertible Bond, including the value equivalent to the difference between the Accrued Interest on that given day and the Unit-Based Accrued Interest on the immediately preceding day\*<sup>1-1</sup>)

(\*<sup>1-1</sup> excluding the case where that given day falls on the interest payment date)

(3) Settlement of sale opposite the purchase for Buy-In

In respect of the same Securities Clearing Participant, the total selling price of sales, and the quantity of the securities sold in respect of each issue, having the same settlement day.

- (4) In the event that a buying/selling was formed as a result of Buy-In, the Settlement of Failed Transaction by Buy-In to be conducted on the settlement day of such buying/selling transaction

The amount of money prescribed in (a) below and the quantity of securities prescribed in (b) below:

- (a) In respect of the quantity of securities prescribed in (b) below, the total sum of the products of the quantity of the securities multiplied by the Uniform DVP Settlement Price as of the immediately preceding day in respect of each issue<sup>\*1</sup>; and  
 (\*<sup>1</sup> in respect of an interest-bearing Convertible Bond, including the Unit-Based Accrued Interest as of the immediately preceding day<sup>\*1-1</sup>)  
 (\*<sup>1-1</sup> excluding the case where such day falls on the interest payment date)
- (b) The quantity of the securities in respect of each issue to be received as a result of the Settlement of Failed Transaction by Buy-In to be conducted on the same settlement date by the same Securities Clearing Participant.

- (5) Settlement other than those set forth in each of the preceding Items

In respect of the same Securities Clearing Participant, the difference between the total amount of sales proceeds<sup>\*1</sup> and the total amount of purchase money<sup>\*2</sup>, and the difference between the total quantity of securities sold<sup>\*3</sup> and the total quantity of securities purchased<sup>\*4</sup> in respect of each issue, which are to be settled on the same day.

(\*<sup>1</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of Paragraph 2 of Article 3, the total amount of money to be received)

(\*<sup>2</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of said Paragraph, the total amount of money to be paid)

(\*<sup>3</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of said Paragraph, the total quantity of securities to be delivered)

(\*<sup>4</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of said Paragraph, the total quantity of securities to be received)

- 2 The amounts of money prescribed in Item (2) through Item (4) of the preceding Paragraph shall be paid or received, being included in the amount of money prescribed in Item (5) of said Paragraph, and the quantities of the securities prescribed in Item (3) and Item (4) of said Paragraph shall be delivered or received after they are offset against each other.

(Article 55 Money and Securities Transferred for Settlement of Buying/Selling Underlying Securities Resulting from the Exercise of Security Option)

- 1 Notwithstanding the provisions of Paragraph 1 of Article 50 and the preceding Article, the amount of money and the quantity of securities to be delivered or received by the Securities Clearing Participant for the settlement of the Contracts for Clearing in respect of the selling/buying of the underlying securities resulting from the exercise of Security Option Contract<sup>\*1</sup> shall be as prescribed in the following Items, based on the classification

referenced in each Item:

(\*1 limited to the buying/selling in respect of Security Option other than the Security Option which enables the buying or selling to be realized in the Trading Units at the exercise price)

(1) In the case where the quantity in respect of the buying/selling of the underlying security resulting from the exercise of the minimum unit of option exceeds the quantity comprising the Trading Unit of the relevant underlying security:

A) Portion Corresponding to the Trading Unit Quantity\*1

(\*1 referring to the quantity obtained by subtracting the quantity of the underlying security which fall short of comprising its trading unit, from the quantity of the underlying security to be bought/sold as a result of the exercise of the minimum unit of the option; the same applies hereinafter in this Article)

(a) The difference between the Total Value of securities sold and the Total Value of securities bought calculated at the Uniform DVP Settlement Prices

In respect of the buying/selling of the underlying securities resulting from the exercise of options by the relevant Securities Clearing Participant which are to be settled on the given day, the difference between the Total Value\*1 of securities for sale and the Total Value of securities for purchase;

(\*1 referring to the total amount, in respect of each issue of the underlying securities, obtained by multiplying the Trading Unit Quantity by the Uniform DVP Settlement Price as of the given day, and then multiplying the resulting product by the number of the Security Option exercised; the same applies hereinafter)

(b) The difference between exercise price and Uniform DVP Settlement Price

In respect of the buying/selling of the underlying securities resulting from the exercise of option by the relevant Securities Clearing Participant which is to be settled on the given day, the value equivalent to the difference between the exercise price and the Uniform DVP Settlement Price as of the given day pertaining to the Trading Unit Quantity;

(c) The quantity of securities obtained by multiplying the Trading Unit Quantity by the number of Security Option exercised.

B) Portion Corresponding to the Residual Quantity Less Than One Trading Unit Quantity\*1

(\*1 referring to the quantity obtained by subtracting the Trading Unit Quantity from the quantity of the underlying securities to be bought/sold as a result of the exercise of the minimum unit of the option; the same applies hereinafter in this Article)

(a) The price of the buying/selling of the underlying securities resulting from the exercise of option\*1

(\*1 referring to the value obtained by multiplying Residual Quantity Less Than One Trading Unit Quantity by the exercise price, and then multiplying the resulting

product<sup>\*1-1</sup> by the number of the Security Option exercised)

(\*1-1 fraction less than 1 yen shall be rounded down)

- (b) The amount of money equivalent to the value which is obtained by multiplying Residual Quantity Less Than One Trading Unit Quantity by the Option Settlement Price<sup>\*1</sup>, and then multiplying the resulting product<sup>\*2</sup> by the number of the Security Option exercised

(\*1 in respect of the buying/selling of the underlying securities resulting from the exercise of the option under Security Option Contract, referring to the Option Settlement Price prescribed in Paragraph 5 of Article 73-4; the same applies hereinafter in this Article)

(\*2 fraction less than 1 yen shall be rounded down)

- (2) In the case where the quantity in respect of the buying/selling of the underlying security resulting of the exercise of the minimum unit of the option is less than the quantity comprising the Trading Unit of the relevant underlying security:

- A) The price of the buying/selling of the underlying securities resulting from the exercise of option<sup>\*1</sup>

(\*1 referring to the value obtained by multiplying the quantity in respect of the buying/selling of the underlying securities resulting of the exercise of the minimum unit of the option by the exercise price, and then multiplying the resulting product<sup>\*1-1</sup> by the number of the Security Option exercised)

(\*1-1 fraction less than 1 yen shall be rounded down)

- B) The amount of money equivalent to the value which is obtained by multiplying the quantity in respect of the buying/selling of the underlying securities resulting of the exercise of the minimum unit of the option by the Option Settlement Price, and then multiplying the resulting product<sup>\*1</sup> by the number of the Security Option exercised

(\*1 fraction less than 1 yen shall be rounded down)

- 2 The amount of money and the quantity of securities to be delivered or received pursuant to Item (1) A) of the preceding Paragraph shall be included in the amount of money and the quantity of securities to be delivered or received for DVP Settlement prescribed in Paragraph 1 of Article 50, and the amount of money to be paid or received pursuant to Item (1) B) and Item (2) of the preceding Paragraph shall be included in the amount of money to be paid or received for Non-DVP Settlement prescribed in Item (5) of Paragraph 1 of the preceding Article. In such cases, the money prescribed in Item (1) B) (b) or (2) B) of the preceding Paragraph shall be included in the total amount of purchase money which is prescribed in Item (5) of Paragraph 1 of the preceding Article if the Participant is the selling Securities Clearing Participant in respect of the buying/selling of the underlying securities resulting from the exercise of option; and shall be included in the total amount of sales proceeds which is prescribed in the same Item if the Participant is the buying Securities Clearing Participant in respect of the relevant buying/selling.

## (Article 56 Settlement Method)

- 1 The payment and receipt of money for settling Contracts for Clearing shall be made between Clearing Participant and JSCC, and receipt and payment of money in this case shall be governed in accordance with the rules of JSCC.
- 2 The delivery and receipt of securities for settling Contracts for Clearing shall be made as prescribed in the following Items, based on the classification of securities referenced in each Item:
  - (1) Securities Eligible for DVP Settlement;  
It shall be made through the book-entry transfer carried out in JASDEC between Clearing Participant and JSCC. In such case, the request for a transfer from the account of the delivering Securities Clearing Participant to the account of JSCC shall be made to JASDEC by JSCC on behalf of the delivering Securities Clearing Participant, and the request for a transfer from the account of JSCC to the account of the receiving Securities Clearing Participant shall be made to JASDEC by JSCC;
  - (2) Bonds\*<sup>1</sup>; and  
(\*<sup>1</sup> excluding Japanese Government Bonds and corporate bonds with stock acquisition rights)  
It shall be made between Clearing Participant and JSCC by the book-entry transfer between the accounts held at JASDEC;
  - (3) Securities other than those stipulated in the preceding two Items.  
It shall be made between Clearing Participant and JSCC by delivering and receiving the certificate of securities.

## (Article 57) Deleted

## (Article 58 Combination of Certificates of Securities to be Delivered)

The combination of the kinds of the certificate of securities to be delivered by the delivering Securities Clearing Participant for the settlement of the securities stipulated in Item (3) of Paragraph 2 of Article 56 shall be governed by the rules of JSCC.

## (From Article 59 to Article 61) Deleted

## (Article 62 Handling of Delivery Failure in DVP Settlement)

- 1 In respect of DVP Settlement, in the event that the delivering Securities Clearing Participant fails to deliver the securities by the cutoff time for the DVP Settlement\*<sup>1</sup> due to an unavoidable reason\*<sup>2</sup>, the delivery of the relevant securities and the accompanied payment/receipt of money shall be deferred to the immediately following day\*<sup>3</sup>.

(\*<sup>1</sup> including the delivery of the securities the settlement of which was deferred on the day

immediately preceding this settlement day<sup>\*1-1</sup> pursuant to the provisions of this Article)

(\*1-1 in the case of an interest-bearing Convertible Bond, if this settlement day falls on the interest payment date, on the day which precedes this settlement day by two days)

(\*2 hereinafter referred to as “the Case of Delivery Failure” in this Section)

(\*3 in the case of an interest-bearing Convertible Bond, if that immediately following day falls on the day which immediately precedes the interest payment date, the second following day<sup>\*3-1</sup>; the same applies hereinafter in this Article and the following Article)

(\*3-1 if such day falls on a Non-business Day, it shall be the immediately following business day)

2 In the case where a delivery of securities from the Securities Clearing Participant that has made the Delivery Failure to JSCC was deferred pursuant to the preceding Paragraph, the delivery to the receiving Securities Clearing Participant of the securities designated by JSCC on each applicable occasion in respect of the relevant deferment and the accompanied payment/receipt of money shall be deferred to the following day.

(Article 62-2 Prohibition, etc. of Causing Delivery Failure in DVP Settlement)

1 Securities Clearing Participant is prohibited from causing Delivery Failure in settlement of securities on the days designated by JSCC as necessary.

2 In addition to the provisions of the preceding Paragraph, Securities Clearing Participant is prohibited from causing Delivery Failure in settlement of securities without good reason.

(Article 62-3 Other Handlings of Delivery Failure)

In addition to the provisions of the preceding two Articles, matters necessary for the handling of the Case of Delivery Failure shall be prescribed in the rules of JSCC.

(Article 63 Buy-In)

1 Buy-In is a purchase of securities in the Case of Delivery Failure in order to complete the settlement of the unsettled Contracts for Clearing, and is carried out at the request of the receiving Securities Clearing Participant in respect of the relevant Delivery Failure in accordance with the rules of JSCC by and on the account of the Securities Clearing Participant that has made the relevant Delivery Failure.

2 The settlement of the buying/selling resulting from Buy-In shall be carried out on the day immediately following the day on which the buying/selling contract was concluded; provided, however, that in respect of buying/selling of an interest-bearing Convertible Bond resulting from Buy-In, in the case where such following day falls on the day stipulated in Item (4) of Paragraph 3 of the following Article, the settlement shall be carried out on the day<sup>\*1</sup> which follows the day on which the buying/selling contract was concluded by two days.

(\*1 if such day falls on a Non-business Day, it shall be the immediately following business day)

3 The matters necessary for Buy-In shall be prescribed in the rules of JSCC.

(Article 64 Settlement by Due Bills)

1 In respect of Non-DVP Settlement<sup>\*1</sup>, in the event that the delivering Securities Clearing Participant is not able to deliver the securities by the cutoff time for the Non-DVP Settlement due to an unavoidable reason, and has proven the relevant reason to JSCC and obtained an approval from the Securities Clearing Participant which is designated by JSCC as the receiver of a due bill<sup>\*2</sup>, such delivering Securities Clearing Participant may issue a due bill to JSCC, and JSCC may deliver the due bill to DB-Receiving Securities Clearing Participant. In this case, the settlement of the securities shall be deemed to have been completed by the delivery of such due bill.

(\*1 excluding settlement of When-Issued Transaction)

(\*2 hereinafter referred to as "DB-Receiving Securities Clearing Participant")

2 In addition to the provisions of the preceding Paragraph, in respect of the settlement of Contracts for Clearing on a When-Issued Transaction, in the event that the delivery of the securities cannot be made by the cutoff time for the Non-DVP Settlement, and if JSCC especially deems it necessary to do so, the delivering Securities Clearing Participant, after obtaining an approval from the DB-Receiving Securities Clearing Participant, may deliver a due bill to JSCC and JSCC may deliver the due bill to the DB-Receiving Securities Clearing Participant. In this case, the settlement of securities shall be deemed to have been completed by the delivery of such due bill.

3 The settlement of the securities lending/borrowing pertaining to due bills shall be carried out by the fourth business day after the day on which such due bills were issued<sup>\*1</sup>; provided, however, that in the case where any day listed in each of the following Items arrives during the time between the day on which such due bills are issued and the Settlement Cutoff Date for Securities Lending/Borrowing Pertaining to Due Bill, the settlement of the securities lending/borrowing pertaining to the due bills shall be carried out by the day immediately preceding<sup>\*2</sup> the day listed in each of the following Items, except for the case where an approval by the DB-Receiving Securities Clearing Participant has been granted:

(\*1 hereinafter referred to as the "Settlement Cutoff Date for Securities Lending/Borrowing Pertaining to Due Bill" in this Article)

(\*2 when the day listed in each of the following Items falls on a Non-business Day, the day preceding by two days)

(1) Record date, etc. for fixing the shareholders<sup>\*1</sup>;

(\*1 including preferred equity holders, capital subscribers, beneficiaries, investment unit holders and owners)

(2) The day immediately preceding the day on which a change<sup>\*1</sup> in the consideration for the acquisition set by the issuer of classified stock is to be made<sup>\*2</sup>; the day immediately preceding<sup>\*3</sup> the day<sup>\*4</sup> on which a change in the number of shares represented by a

depository receipt for foreign stocks set by the depository facility is to be made; the day immediately preceding the day on which a change<sup>\*5</sup> in the conditions for the exercise of the right under a Convertible Bond set by its issuer is to be made<sup>\*6</sup>; and the day immediately preceding the day on which a change<sup>\*7</sup> in the exchanging condition of an Exchangeable Corporate Bond<sup>\*8</sup> set by its issuer is to be made;

(\*1 including the suspension of the period during which a demand for acquisition may be made)

(\*2 in respect of a stock with put option, if the intermediary of the demand for acquisition is restricted in JASDEC on such preceding day, referring to the last day on which the demand for acquisition may be made under the original condition before such change)

(\*3 in the case where JSCC deems it necessary to designate a day other than such preceding day, the day designated by JSCC in each case)

(\*4 in the case where the relevant depository facility sets the period during which an exchange between the depository receipt for foreign stocks and the stocks issued by the foreign corporation pertaining to the rights represented by such depository receipt for foreign stocks is suspended or restricted, referring to such period's commencement day)

(\*5 including the suspension of the exercise period)

(\*6 if the intermediary of the demand for exercise of the right is restricted in JASDEC on such preceding day, referring to the last day on which the demand for exercise of the right may be made under the original condition before such change)

(\*7 including the suspension of the period during which a demand for exchange may be made)

(\*8 referring to the securities stipulated in Item 5 of Paragraph 1 of Article 2 of the Act or the securities stipulated in Item 17 of the same Paragraph having the characteristics of the securities stipulated in Item 5 of the same Paragraph<sup>\*8-1</sup>, which are redeemable in exchange for the stocks of a specific company other than the issuer at the request of the holder of the Corporate Bond; the same applies hereinafter)

(\*8-1 hereinafter referred to as "Corporate Bond" in this Item.)

(3) The last day of the period during which the demand for redemption before maturity may be made in respect of the Convertible Bond/Exchangeable Corporate Bond embedded with the right to demand redemption before maturity;

(4) The day immediately preceding the interest payment date in respect of an interest-bearing bond<sup>\*1</sup> or an interest-bearing Convertible Bond<sup>\*2</sup>.

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

(\*2 excluding the Convertible Bonds Not Handled by JASDEC)

(5) In respect of investment trust beneficiary securities, in the event that the intermediary

of demand for beneficiary registration is processed in JASDEC, the record date for the beneficiary; and

(6) The exercise date in respect of covered warrant.

4 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC specifically deems it necessary, the delivering Securities Clearing Participant may, after obtaining an approval from the DB-Receiving Securities Clearing Participant, change the Settlement Cutoff Date for Securities Lending/Borrowing pertaining to Due Bill to the date JSCC deems appropriate.

5 Notwithstanding the provisions of Paragraph 1, the delivery of securities to JSCC to be made pursuant to the provisions of Item (3) of Paragraph 1 of Article 54 cannot be settled pursuant to this Article by delivering a due bill.

(Article 64-2 Prohibition of the abuse of Due Bills)

Securities Clearing Participant is prohibited from issuing due bills abusively.

(Article 64-3 Other Handlings of Due Bills)

In addition to the preceding two Articles, necessary matters concerning due bills shall be prescribed in the rules of JSCC.

(Article 65 Exchange of Delivered/Received Securities Pertaining to Redemption by Drawing)

In the case where the bond which has been decided to be redeemed as a result of drawing\*<sup>1</sup> was delivered for settlement after the day on which the relevant “winning” number had been published, the Securities Clearing Participant which has received the relevant Bond Drawn for Redemption may, pursuant to the rules prescribed by JSCC, demand the Securities Clearing Participant which delivered the relevant Bond Drawn for Redemption to JSCC to exchange it for other bond of the same issue.

(\*<sup>1</sup> excluding the bond which is handled by JASDEC as its book-entry transfer business and Japanese Government Bonds; hereinafter referred to as the “Bond Drawn for Redemption” in this Article)

(Article 66 Settlement Price for When-Issued Transaction)

JSCC shall set a Settlement Price on a daily basis in accordance with the rules of JSCC for each issue in respect of which When-Issued Transaction is transacted.

(Article 67 Payment/Receipt of Difference between Contract Price of and Settlement Price for When-Issued Transaction)

1 In respect of When-Issued Transaction, if there is any difference in amount between the contract price and the Settlement Price as of the day of the conclusion of the relevant buying/selling contract, the Securities Clearing Participant shall, in accordance with the

rules of JSCC, pay/receive money equivalent to such difference to/from JSCC by the Settlement Cutoff Time for Non-DVP Settlement on the third day following the day on which the When-Issued Transaction was formed.

- 2 The amount of money stipulated in the preceding Paragraph shall be included in the value prescribed in Item (5) of Paragraph 1 of Article 54.

(Article 68 Payment/Receipt of Difference between Settlement Prices for When-Issued Transaction)

- 1 If there is any difference in amount between the Settlement Price as of the given day and the Settlement Price on the immediately preceding day, the Securities Clearing Participant shall, in accordance with the rules of JSCC, pay/receive money equivalent to such difference to/from JSCC by the Settlement Cutoff Time for Non-DVP Settlement on the third day following such given day.
- 2 The provisions of Paragraph 2 of the preceding Article shall apply *mutatis mutandis* to the payment/receipt of money prescribed in the preceding Paragraph.

(Article 69 Final Settlement Price for When-Issued Transaction)

The final Settlement Price for When-Issued Transaction shall be the Settlement Price on the last trading day\*<sup>1</sup> of the relevant When-Issued Transaction.

(\*<sup>1</sup> referring to the last trading day set by each Designated Market Operator)

(Article 70 Margin for When-Issued Transaction)

- 1 A Securities Clearing Participant shall deposit with JSCC the Margin for When-Issued Transaction in the amount not less than the amount calculated in accordance with the rules of JSCC by 2 P.M. on the third day following the day on which the relevant When-Issued Transaction was formed; provided, however, that in the case where the Securities Clearing Participant has any buying/selling position which is opposed to the selling/buying position of the same issue, the deposit of the Margin in the amount calculated in respect of the difference between the total quantity of selling position and the total quantity of buying position shall be sufficient.
- 2 Cash may be deposited as the Margin for When-Issued Transaction, but only in any of the currencies designated by JSCC. In this case, the appraisal value of the cash deposited in a currency other than Japanese yen shall be the amount equal to the value of cash in that currency converted to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of that currency in the Tokyo foreign exchange market on the day which is two days before the day on which the date of deposit multiplied by a certain rate determined by JSCC.
- 3 Securities\*<sup>1</sup> may be deposited in lieu of cash as the Margin in accordance with the rules of JSCC.

(\*<sup>1</sup> limited to the securities JSCC deems appropriate taking into account the liquidity and

other factors)

- 4 The substituting value of the securities prescribed in the preceding Paragraph shall be calculated by multiplying the market price determined by JSCC as of the day which precedes the day of the deposit by two days by a certain rate determined by JSCC.
- 5 In addition to the provisions of the preceding two Paragraphs, matters concerning the securities to be deposited in lieu of cash as the Margin shall be prescribed by JSCC.
- 6 JSCC may extraordinarily change the amount, time and date prescribed in Paragraph 1, and the substituting value prescribed in Paragraph 3, when JSCC deems it particularly necessary to do so in cases such as there is an excessive fluctuation in the market.

Section 2 Settlement of Contracts for Clearing on Japanese Government Bonds.

## (Article 71 Money and JGBs to be Delivered/Received for Settlement)

The amount of money and the quantity of Japanese Government Bonds to be delivered or received by Securities Clearing Participant between JSCC in order to settle Contracts for Clearing on Japanese Government Bonds\*<sup>1</sup> shall be the price for the buying/selling and the quantity of Japanese Government Bonds in respect of each conclusion of the buying/selling contract.

## (Article 72 Settlement Cutoff Time and Settlement Method)

1 The delivery and receipt of money and Japanese Government Bonds for settling Contracts for Clearing on Japanese Government Bonds shall be carried out between Clearing Participant and JSCC through the DVP Settlement in BOJ-NET JGB Service System in accordance with each of the following Items:

- (1) The Securities Clearing Participant delivering Japanese Government Bond shall, in accordance with the rules of JSCC, deliver it by 1:30 P.M. on the settlement day and receive the money;
- (2) The Securities Clearing Participant making payment shall, in accordance with the rules of JSCC, pay the money by 2:00 P.M. on the settlement day and receive the Japanese Government Bonds.

2 In carrying out the settlement pursuant to the provisions of the preceding Paragraph, the Securities Clearing Participant shall make efforts to ensure a smooth settlement.

## (Article 73 Handling of the Case of Delivery Failure)

1 In respect of the settlement of Contracts for Clearing on Japanese Government Bonds, if the delivering Securities Clearing Participant did not deliver the Japanese Government Bonds by the cutoff time prescribed in Item (1) of Paragraph 1 of the preceding Article on the settlement day\*<sup>1</sup>, the relevant settlement shall be deferred to the following day or later.

(\*<sup>1</sup> hereinafter referred to as “the Case of Delivery Failure” in this Article)

2 In the case of the event stipulated in the preceding Paragraph, the Securities Clearing Participant that has made the Delivery Failure shall carry out the settlement by the fourth day following the original settlement day. In such case, the relevant Securities Clearing Participant that has made the Delivery Failure shall notify JSCC in advance of the day on which the settlement is to be carried out, and such day shall constitute the settlement day for the Case of Delivery Failure.

3 In the event that the settlement between the delivering Securities Clearing Participant and JSCC has been deferred pursuant to the provisions of Paragraph 1, the part of the settlement specified by JSCC between JSCC and the receiving Securities Clearing

Participant shall be carried out on the settlement day for the Case of Delivery Failure as set forth in the preceding Paragraph.

4 With regards to the application of the provisions of the preceding Article to the Case of Delivery Failure, the words “the settlement day” shall be interpreted to mean “the settlement day for the Case of Delivery Failure”.

5 In addition to each of the preceding Paragraphs, matters necessary for handling in the Case of Delivery Failure shall be prescribed in the rules of JSCC.

Section 3 Settlement of Security Option Contract

(Article 73-2 Reporting Close-out Quantity and the Like)

1 An Index Futures Clearing Participant shall, in respect of each issue of Security Option Contract, notify JSCC the close-out quantity<sup>\*1</sup> and the amount of Offsetting Sale or Offsetting Purchase when it has executed Offsetting-Sale or Offsetting-Purchase<sup>\*2</sup>, by each account as set forth in Article 46-3 and by the cutoff time set by JSCC.

(\*<sup>1</sup> referring to the settlement quantity when the short position and the long position is held simultaneously in respect of an issue, and all or a part of such position is settled<sup>\*1-2</sup>)

(\*<sup>1-2</sup> excluding the settlement through Offsetting Sale or Offsetting Purchase)

(\*<sup>2</sup> excluding the case stipulated in the following Paragraph)

2 An Index Futures Clearing Participant shall notify, in respect of each issue of Security Option Contract, JSCC the close-out quantity<sup>\*1</sup>, and, when Offsetting-Sale in respect of the Long Position which are pursuant to the commissions of the Brokerage for Clearing of Securities, etc.<sup>\*3</sup> or Offsetting-Purchase in respect of the Short Position which are pursuant to the commissions of the Brokerage for Clearing of Securities, etc.<sup>\*4</sup> has been executed, the amount of Offsetting Sale or Offsetting Purchase by an Index Futures Non-Clearing Participant<sup>\*2</sup> pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing, by each account as set forth in Article 46-4 and by the cutoff time set by JSCC. In such case, an Index Futures Clearing Participant may cause the Index Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing or the relevant Short Position Subject To Brokerage for Clearing to make such notification in place of Index Futures Clearing Participant's own notification.

(\*<sup>1</sup> limited to those under commission of the Brokerage for Clearing of Securities, etc.)

(\*<sup>2</sup> referring to the entity which has the trading qualification in respect of Security Option Contract but does not have Index Futures Clearing Qualification; the same applies hereinafter in this Section)

(\*<sup>3</sup> hereinafter referred to as the "Long Position Subject To Brokerage for Clearing")

(\*<sup>4</sup> hereinafter referred to as the "Short Position Subject To Brokerage for Clearing")

3 When JSCC has received the notification pursuant to the provisions of Paragraph 1, the close-out quantity and the amount of the Offsetting-Sales/Offsetting-Purchases so notified shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position and the Short Position by each account set forth in Article 46-3 that is managed by the relevant Index Futures Clearing Participant.

4 When JSCC has received the notification pursuant to the provisions of Paragraph 2, the close-out quantity and the amount of the Offsetting-Sales/Offsetting-Purchases so notified shall be regarded as the amount pertaining to the settlement and such amount shall be

subtracted from the Long Position Subject To Brokerage for Clearing and the Short Position Subject To Brokerage for Clearing by each account set forth in Article 46-4 that is managed by the relevant Index Futures Clearing Participant.

- 5 When JSCC has received the notification set forth in Paragraph 1 or Paragraph 2, JSCC shall inform the Designated Market Operator\*<sup>1</sup> of the close-out quantity and the amount of the Offsetting-Sales and/or the Offsetting-Purchases so notified.

(\*<sup>1</sup> referring to the Designated Market Operator operating the Designated Financial Instruments Market prescribed in Item (2) of Paragraph 2 of Article 3; the same applies hereinafter in this Section)

(Article 73-3 Payment/Receipt of Contract Price)

When a Contract for Clearing in respect of Security Option Contract is formed, the Index Futures Clearing Participant shall pay/receive the contract price therefor to/from JSCC on the day immediately following the day of the conclusion of the trading contract. In such case, an Index Futures Clearing Participant making payment shall pay the money by 11:00 A.M., and an Index Futures Clearing Participant receiving payment shall receive the money at 1:00 P.M. of the day on which the relevant money is to be paid or received.

(Article 73-4 Notification of Exercise of Option)

- 1 An exercise of the option pertaining to the Long Position\*<sup>1</sup> of Security Option Contract shall be done by the Index Futures Clearing Participant's notifying JSCC of the amount pertaining to the exercise in respect of each issue by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC which precedes the expiration time of the Security Option Contract specified by the Designated Market Operator.

(\*<sup>1</sup> excluding the Long Position Subject To Brokerage for Clearing)

- 2 An exercise of the option pertaining to the Long Position\*<sup>1</sup> of Security Option Contract shall be done by the Index Futures Clearing Participant's notifying JSCC of the amount pertaining to the exercise in respect of each issue and each Index Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing, and by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC which precedes the expiration time of the Security Option Contract specified by the Designated Market Operator. In such case, an Index Futures Clearing Participant may cause the Index Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing to make such notification in place of Index Futures Clearing Participant's own notification.

(\*<sup>1</sup> limited to the Long Position Subject To Brokerage for Clearing)

- 3 Regarding the issue which falls under any of the following Items on the Exercise Date\*<sup>1</sup>, the notification of the exercise of the option on that issue shall be deemed to have been made

even though the notification of the exercise of the option set forth in the preceding two Paragraphs is not made on the relevant day by the cutoff time set by JSCC under said Paragraphs; provided, however, that the foregoing shall not apply in the case where the Index Futures Clearing Participant notified by such cutoff time to the effect that it will not exercise the option in respect of such issue:

(\*1 referring to the exercise date specified by the Designated Market Operator in respect of the Security Option Contract; the same applies hereinafter in this Section)

(1) In respect of Individual Put Option, in the case where the exercise price exceeds the Option Reference Price\*1;

(\*1 referring to the Option Reference Price prescribed in Paragraph 5; the same applies hereinafter in this Section)

(2) In respect of Individual Call Option, in the case where the exercise price is lower than the Option Reference Price.

4 In the case where JSCC deems it inappropriate to regard the notification of the exercise of option as having been made pursuant to the provisions in the main clause of the preceding Paragraph due to a system failure in the Designated Market Operator's trading system or some other unavoidable reasons, such provisions of the main clause in said Paragraph shall not apply.

5. Option Reference Price shall be the last price\*1 of the underlying security on the Exercise Date, and in the case where there is no contract price\*2 on that Exercise Date, the Option Reference Price shall be the latest contract price; provided, however, that in the case where there is no contract price after the last ex-right day of that underlying security, the Option Reference Price shall be the price set by JSCC on each applicable occasion.

(\*1 referring to the last price of the underlying security in the Financial Instruments Market designated by the Designated Market Operator, and including the final quote that is posted in accordance with the rules of the operator of such Financial Instruments Market)

(\*2 including the final quote that is posted in accordance with the rules of the Designated Market Operator; the same applies hereinafter in this Article)

6 When JSCC has received the notification of the exercise of option prescribed in Paragraph 1 or Paragraph 2\*1, JSCC shall inform the detail of the exercise of option so notified to the Designated Market Operator.

(\*1 including the case where the notification of the exercise of option is deemed to have been received pursuant to the provisions of Paragraph 3)

7 An Index Futures Clearing Participant which has designated a Designated Securities Clearing Participant, when it has filed the notification of the exercise of option pursuant to the provisions of Paragraph 1\*1, shall notify such Designated Securities Clearing Participant to such effect without delay.

(\*1 including the case where the notification of the exercise of option is deemed to have been

received pursuant to the provisions of Paragraph 3)

(Article 73-5 Assignment of Exercised Option)

- 1 When an Index Futures Clearing Participant notifies the exercise of option, JSCC shall make the assignment of the quantity of the exercised option in respect of each issue in accordance with the rules of JSCC.
- 2 When JSCC makes the assignment of the exercised option pursuant to the provisions in the preceding Paragraph, JSCC shall notify the Index Futures Clearing Participant to whom such assignment is made\*<sup>1</sup> of the quantity of the relevant assignment by separating those for the proprietary account from those pursuant to the commissions by its customers.  
(\*<sup>1</sup> in the case where the exercised option is assigned to the Short Position Subject To Brokerage for Clearing, the assigned quantity of each Index Futures Non-Clearing Participant pertaining to the relevant Short Position Subject To Brokerage for Clearing by separating those for the proprietary account from those pursuant to the commissions by its customers)
- 3 The Index Futures Clearing Participant which received the notification of the assignment to the Short Position Subject To Brokerage for Clearing pursuant to the provisions of the preceding Paragraph shall notify each Index Futures Non-Clearing Participant pertaining to the relevant Short Position Subject To Brokerage for Clearing of such assigned quantity by separating those for the proprietary account from those pursuant to the commissions by its customers.
- 4 When JSCC makes the assignment of the quantity of the exercised option pursuant to the provisions of Paragraph 1, JSCC shall notify the detail of such assignment to the Designated Market Operator.
- 5 An Index Futures Clearing Participant which has designated a Designated Securities Clearing Participant, when it has received the notification of assignment of the exercised option pursuant to the provisions of Paragraph 2, shall notify such Designated Securities Clearing Participant to such effect without delay.

(Article 73-5-2 Locus of Responsibility in the case where Option Reference Price is not able to be calculated, etc.)

An Index Futures Clearing Participant is not entitled to seek indemnity against JSCC and the Designated Market Operator referred to in Paragraph 5 of Article 73-4 for any damages suffered by it as a result of an inability, delay or error regarding the calculation of, or as a result of a change in, the Option Reference Price.

Section 4 Settlement of JGB Futures Contract.

(Article 73-6 Reporting Close-out Quantity and the Like)

1 AJGB Futures Clearing Participant shall, in respect of JGB Futures Contract for each contract month<sup>\*1</sup>, notify JSCC the close-out quantity and the amount of Offsetting Sale or Offsetting Purchase when it has executed Offsetting-Sale or Offsetting-Purchase<sup>\*2</sup>, by each account as set forth in Article 46-3 and by the cutoff time set by JSCC.

(\*1 referring to the contract month set by the Designated Market Operator<sup>\*2-1</sup>; the same applies hereinafter in this Section)

(\*2-1 referring to the Designated Market Operator operating the Designated Financial Instruments Market prescribed in Item (3) of Paragraph 2 of Article 3; the same applies hereinafter in this Section)

(\*2 excluding the case stipulated in the following Paragraph)

2 A JGB Futures Clearing Participant shall, in respect of JGB Futures Contract for each contract month, notify JSCC the close-out quantity<sup>\*1</sup>, and, when Offsetting-Sale in respect of the Long Position Subject To Brokerage for Clearing or Offsetting-Purchase in respect of the Short Position Subject To Brokerage for Clearing has been executed, the amount of Offsetting Sale or Offsetting Purchase by an JGB Futures Non-Clearing Participant<sup>\*2</sup> pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing by each account as set forth in Article 46-4 and by the cutoff time set by JSCC. In such case, a JGB Futures Clearing Participant may cause the JGB Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing make such notification in place of JGB Futures Clearing Participant's own notification.

(\*1 limited to those under commission of brokerage for clearing of securities, etc.)

(\*2 referring to the entity who has the trading qualification in respect of JGB Futures Contract but does not have JGB Futures Clearing Qualification; the same applies hereinafter)

3 When JSCC has received the notification pursuant to the provisions of Paragraph 1, the close-out quantity and the amount of the Offsetting-Sales/Offsetting-Purchases so notified shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position and the Short Position by each account set forth in Article 46-3 that is managed by the relevant JGB Futures Clearing Participant.

4 When JSCC has received the notification pursuant to the provisions of Paragraph 2, the close-out quantity and the amount of the Offsetting-Sales/Offsetting-Purchases so notified shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position Subject To Brokerage for Clearing and the Short Position Subject To Brokerage for Clearing by each account set forth in Article 46-4 that is managed by the relevant JGB Futures Clearing Participant.

5 When JSCC has received the notification set forth in Paragraph 1 or Paragraph 2, JSCC shall inform the Designated Market Operator of the close-out quantity and the amount of the Offsetting-Sales and/or the Offsetting-Purchases so notified.

(Article 73-7 Settlement Price)

For each Trading Day<sup>\*1</sup>, JSCC shall set the Settlement Price for JGB Futures Contract in respect of each contract month in accordance with the rules of JSCC.

(\*1 referring to the trading day specified by the Designated Market Operator in respect of JGB Futures Contract; the same applies hereinafter in this Section)

(Article 73-8 Payment/Receipt of Difference between Contract Price and Settlement Price)

If there is any difference between the contract price of a JGB Futures Contract and the Settlement Price as of the Trading Day on which the relevant trading contract was concluded, the JGB Futures Clearing Participant shall pay/receive the money equivalent to such difference to/from JSCC on the day immediately following the day on which the relevant Trading Day ends. In this case, the JGB Futures Clearing Participant making payment shall pay the money by 11:00 A.M., and the JGB Futures Clearing Participant receiving payment shall receive the money at 1:00 P.M. on the day on which the relevant money is to be paid/received.

(Article 73-9 Payment/Receipt of Difference between Settlement Prices)

If there is any difference between the Settlement Price on the given Trading Day and the Settlement Price on the immediately preceding Trading Day, the JGB Futures Clearing Participant shall pay/receive the money equivalent to such difference to/from JSCC on the day immediately following the day on which such given Trading Day ends. In this case, the JGB Futures Clearing Participant making payment shall pay the money by 11:00 A.M., and the JGB Futures Clearing Participant receiving payment shall receive the money at 1:00 P.M. on the day on which the relevant money is to be paid/received.

(Article 73-9-2 Payment/Receipt upon Final Settlement)

Upon the Final Settlement on Mini JGB Futures Contract<sup>\*1\*2</sup>, if there is any difference between the Final Settlement Price<sup>\*3</sup> and the Settlement Price on the Last Trading Day<sup>\*4</sup>, the JGB Futures Clearing Participant shall pay/receive the money equivalent to such difference to/from JSCC on the Final Settlement Day<sup>\*5</sup>. In this case, the JGB Futures Clearing Participant making payment shall pay the money by 11:00 A.M., and the JGB Futures Clearing Participant receiving payment shall receive the money at 1:00 P.M. on the day on which the relevant money is to be paid/received.

(\*1 referring to the Mini futures contract in respect of JGB Futures Contract prescribed by the Designated Market Operator; the same applies hereinafter in this Article)

(\*<sup>2</sup> referring to the final settlement prescribed by the Designated Market Operator)

(\*<sup>3</sup> referring to the final settlement price set by the Designated Market Operator)

(\*<sup>4</sup> referring to the last trading day specified by the Designated Market Operator in respect of Mini JGB Futures Contract)

(\*<sup>5</sup> referring to the final settlement day specified by Designated Market Operator in respect of Mini JGB Futures Contract)

(Article 73-10) Deleted

(Article 73-11 Money and Securities Delivered and Received for Settlement by Physical Delivery and Payment)

The amount of money and the quantity of Japanese Government Bonds to be delivered or received by JGB Futures Clearing Participant for the Settlement by Physical Delivery and Payment\*<sup>1</sup> shall be in accordance with each of the following Items:

(\*<sup>1</sup> referring to the settlement of Large JGB Futures Contract\*<sup>1-1</sup> by physical delivery and payment prescribed by the Designated Market Operator; the same applies hereinafter)

(\*<sup>1-1</sup> referring to the large futures contract in respect of JGB Futures Contract prescribed by the Designated Market Operator; the same applies hereinafter)

(1) The quantity of Japanese Government Bonds shall be the difference between the Final Short Position\*<sup>1</sup> and the Final Long Position\*<sup>2</sup> in respect of each classification of tax treatment on the Accrued Interest determined by JSCC pursuant to the provisions of Paragraph 1 of the preceding Article;

(\*<sup>1</sup> referring to the total amount of the Short Position in respect of Large JGB Futures Contract for each contract month for which no report set forth in Paragraphs 1 and 2 of Article 73-6 has been submitted by the Last Trading Day\*<sup>1-1</sup>)

(\*<sup>1-1</sup> referring to the last trading day specified by the Designated Market Operator in respect of Large JGB Futures Contract; the same applies hereinafter in this Article)

(\*<sup>2</sup> referring to the total amount of the Long Position in respect of Large JGB Futures Contract for each contract month for which no report set forth in Paragraphs 1 and 2 of Article 73-6 has been submitted by the Last Trading Day)

(2) The amount of money shall be the price\*<sup>1</sup> of the Issues Qualified for Delivery\*<sup>2</sup> for the Settlement by Physical Delivery and Payment in respect of the difference in the amount of Japanese Government Bonds set forth in the preceding Item.

(\*<sup>1</sup> referring to the price for the Settlement by Physical Delivery and Payment set by the Designated Market Operator)

(\*<sup>2</sup> referring to the issues qualified to be delivered which are specified by the Designated Market Operator; the same applies hereinafter)

(Article 73-12 Settlement Cutoff Time and Settlement Method of Settlement by Physical Delivery and Payment)

1 The delivery and receipt of money and Japanese Government Bonds in respect of Settlement by Physical Delivery and Payment shall be made between Clearing Participant and JSCC through the DVP Settlement in BOJ-NET JGB Service System in accordance with each of the following Items:

(1) The JGB Futures Clearing Participant delivering Japanese Government Bonds shall, in accordance with the rules of JSCC, deliver it by 1:30 P.M. on the relevant Day of Settlement by Physical Delivery and Payment<sup>\*1</sup> and receive the money;

(\*1 referring to the day specified by the Designated Market Operator on which the Settlement by Physical Delivery and Payment is to be carried out; the same applies hereinafter)

(2) The JGB Futures Clearing Participant making payment shall, in accordance with the rules of JSCC, pay the money by 2:00 P.M. on the relevant Day of Settlement by Physical Delivery and Payment and receive the Japanese Government Bonds.

2 In carrying out the Settlement by Physical Delivery and Payment pursuant to the provisions of the preceding Paragraph, the JGB Futures Clearing Participant shall make effort to ensure a smooth settlement.

(Article 73-13 Combination of Securities Subject to Settlement)

The securities subject to the Settlement by Physical Delivery and Payment may be combined to constitute a number which is an integral multiple of the trading unit in respect of each Issue Qualified for Delivery at the election of the delivering JGB Futures Clearing Participant.

(Article 73-14 Notification of Securities Subject to Settlement)

The delivering JGB Futures Clearing Participant shall notify JSCC of the issue and quantity of the Japanese Government Bonds to be delivered for the Settlement by Physical Delivery and Payment by the cutoff time set by JSCC.

(Article 73-15 Handling of the Case of Delivery Failure)

1 In respect of the Settlement by Physical Delivery and Payment, if the delivering JGB Futures Clearing Participant has failed to deliver Japanese Government Bonds by the cutoff time prescribed in Item (1) of Paragraph 1 of Article 73-12 on the Day of Settlement by Physical Delivery and Payment<sup>\*1</sup>, such settlement shall be deferred to the immediately following day or later.

(\*1 hereinafter referred to as “the Case of Delivery Failure” in this Article)

2 In the case of the event stipulated in the preceding Paragraph, the JGB Futures Clearing Participant that has made the Delivery Failure shall carry out the Settlement by Physical

Delivery and Payment by the fourth day following the Day of Settlement by Physical Delivery and Payment. In such case, the JGB Futures Clearing Participant that has made the Delivery Failure shall notify in advance JSCC of the day on which the Settlement by Physical Delivery and Payment is to be carried out, and such day shall constitute the settlement day for the Case of Delivery Failure.

- 3 In the event that the Settlement by Physical Delivery and Payment between the delivering JGB Futures Clearing Participant and JSCC was deferred pursuant to the provisions of Paragraph 1, the Settlement by Physical Delivery and Payment designated by JSCC among those between JSCC and the receiving JGB Futures Clearing Participants shall be carried out on the settlement day for the Case of Delivery Failure as set forth in the preceding Paragraph.
- 4 With regards to the application of the provisions of Article 73-12 to the Case of Delivery Failure, the words “the Day of Settlement by Physical Delivery and Payment” shall be interpreted to mean “the settlement day for the Case of Delivery Failure”.
- 5 In addition to each of the preceding Paragraphs, matters necessary for handling in the Case of Delivery Failure shall be prescribed in the rules of JSCC.

Section 4-2 Cross Margining

(Article 73-15-2 Cross Margining Request by JGB Futures Clearing Participant)

1 If a JGB Futures Clearing Participant falls on any of the following, it may make request to JSCC to cover its Position in JGB Futures Contracts on an account of a Cross Margining User under the Cross Margining<sup>\*1</sup> in a manner prescribed by JSCC<sup>\*2</sup>:

(\*1 referring to the Cross Margining set forth in Article 2.1.(13)-5 of IRS Business Rules; the same applies hereinafter)

(\*2 hereinafter referred to as the "Cross Margining Request")

(1) When the relevant JGB Futures Clearing Participant is a Cross Margining User, and intends to cover all or a part of its Position in JGB Futures Contracts on its own account under the Cross Margining;

(2) When a Customer of the JGB Futures Clearing Participant or a JGB Futures Non-Clearing Participant which commissions the Brokerage for Clearing of Securities, etc. to the relevant JGB Futures Clearing Participant is a Cross Margining User, and the JGB Futures Clearing Participant has received an application for Cross Margining Request from such Cross Margining User;

(3) When a Customer of a JGB Futures Non-Clearing Participant which commissions the Brokerage for Clearing of Securities, etc. to the relevant JGB Futures Clearing Participant is a Cross Margining User, and the JGB Futures Clearing Participant has received, from the JGB Futures Non-Clearing Participant, an application for Cross Margining Request made through such JGB Futures Non-Clearing Participant.

2 The request set forth in the immediately preceding Paragraph may only be made when the criteria prescribed by JSCC have been satisfied.

(Article 73-15-3 Restrictions on Cross Margining Request)

A JGB Futures Clearing Participant making the Cross Margining Request pursuant to the provisions of the immediately preceding Article<sup>\*1</sup> may not make any Cross Margining Request on behalf of any of the Cross Margining Users listed in each item below on the day that is one or two days preceding the date specified in the relevant item if:

(\*1 hereinafter referred to as the "Cross Margining Requestor")

(1) in respect of a Cross Margining User, its Cross Margining Accepting Party has submitted a notification to change the Cross Margining Requestor or the JGB Futures Non-Clearing Participant to which the Cross Margining User commissions the brokerage of the JGB Futures Contracts<sup>\*1</sup>:

Date on which the change so notified becomes effective:

(\*1 limited to the case where the Cross Margining User is a customer of the JGB Futures Non-Clearing participant)

(2) in respect of a Cross Margining User, its Cross Margining Accepting Party submitted a

notification for discontinuance of using Cross Margining by the relevant Cross Margining User pursuant to the provisions of Article 84-3 of IRS Business Rules:

Day on which the usage of the Cross Margining is discontinued.

(Article 73-15-4 Claims and Obligations related to Cross Margined JGB Futures Cleared Contracts Cease to Exist)

1 If an entity listed in each of the Items below is a Cross Margining User related to the Cross Margined JGB Futures Cleared Contract<sup>\*1</sup> and falls on any of the events set forth in the Items below, the claims and obligations<sup>\*2</sup> related to the Cross Margined JGB Futures Cleared Contracts between the Cross Margining Requestor and JSCC shall cease to exist and have no future effect:

(\*1 referring to the Cross Margined JGB Futures Cleared Contracts set forth in Article 2.1.(13)-6 of IRS Business Rules; the same applies hereinafter)

(\*2 excluding the claims and obligations set forth in Paragraph 4)

(1) Cross Margining Requestor

- a. When the Cross Margining User becomes subject to the measures of suspending assumption of all the obligations taken by JSCC pursuant to the provisions of Paragraph 5 of Article 76, or a 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) against the Cross Margining User:
- b. When the Cross Margining User become subject to the measures of suspension of all or a part of assumption of obligations taken by JSCC, when JSCC has revoked the JGB Futures Clearing Qualification of the Cross Margining User or its Clearing Qualification has been renounced pursuant to the provisions of Article 33, and JSCC has decided to cause other Clearing Participant to settle unsettled Clearing Contracts of such person;
- c. When the Cross Margining User had its Market Transactions of Derivatives suspended by the Designated Market Operator as it is judged to be insolvent or likely to be insolvent;
- d. When a Default in respect of the Cross Margining User has been determined by JSCC pursuant to the provisions of IRS Business Rules;
- e. When, in respect of the Cross Margining User, the Clearing Brokerage Contracts under the Interest Rate Swap Clearing Brokerage Agreement executed pursuant to the provisions of Article 43 of IRS Business Rules terminate on the Early Termination Date pursuant to the provisions of the said Clearing Brokerage Agreement;
- f. When a Default in respect of the Cross Margining Accepting Party for the Cross Margining User has been determined by JSCC pursuant to the provisions of IRS Business Rules, when the Cross Margining Accepting Party for the Cross Margining User falls on any of the events set forth in Article 38.2 of IRS Business Rules or a 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) against the Cross Margining Accepting Party.

(2) Customer of Cross Margining Requestor

- a. In respect of the commission of a brokerage for the JGB Futures Contracts related to the Cross Margined JGB Futures Cleared Contracts, the Cross Margining User has its obligations accelerated as a matter of course pursuant to the provisions of the Agreement for Setting Up Futures/Options Trading Account prescribed by the Designated Market Operator;
- b. When the Cross Margining Request for the Cross Margining User falls on any of the events set forth in sub-items a. to c. of the immediately preceding Item, in which case the references to “the Cross Margining User” in sub-items a. to c. of the said Item shall be replaced with the “Cross Margining Requestor”;
- c. When the Cross Margining Accepting Party for the Cross Margining User falls on the event set forth in sub-item f. of the immediately preceding Item.

(3) JGB Futures Non-Clearing Participant

- a. When the Cross Margining User had its obligations accelerated as a matter of course pursuant to the provisions of the Contract for Commissioning Clearance related to JGB Futures, etc. executed with the Cross Margining Requestor for the commission of the Brokerage for Clearing of Securities, etc. for JGB Futures Contracts related to the Cross Margined JGB Futures Cleared Contracts pursuant to the provisions of Article 39;
- b. When the Cross Margining User becomes subject to the measures of suspension of a commission of the Brokerage for Clearing of Securities, etc. for Market Transactions of Derivatives by the Designated Market Operator as it is judged to be insolvent or likely to be insolvent;
- c. When the Cross Margining Requestor for the Cross Margining User falls on any of the events set forth in sub-items a. to c. of Item (1), in which case, the references to “the Cross Margining User” in sub-items a. to c. of the said Item shall be replaced with “the Cross Margining Requestor”;
- d. When the Cross Margining Accepting Party for the Cross Margining User falls on the event set forth sub-item f of Item (1);

(4) Customer of JGB Futures Non-Clearing Participant

- a. When the Cross Margining Requestor for the Cross Margining User falls on any of the events set forth in sub-items a. to c. of Item (1), in which case, the references to “the Cross Margining User” in sub-items a. to c. of the said Item shall be replaced with “the Cross Margining Requestor”;
- b. When the Cross Margining Accepting Party for the Cross Margining User falls on the event set forth sub-item f of Item (1);

- c. When the Cross Margining User falls on any of the events set forth in sub-item a. of Item (2);
  - d. When the JGB Futures Non-Clearing Participant to which the brokerage for the JGB Futures Contracts are commissioned by the Cross Margining User falls on any of the events set forth in sub-item a. or b. of the immediately preceding Item; in which case, the references to “the Cross Margining User” in sub-item a. and b. of the said Item shall be replaced with “the JGB Futures Non-Clearing Participant to which the brokerage for the JGB Futures Contracts are commissioned by the Cross Margining User.”
- 2 When the claims and obligations cease to exist pursuant to the provisions of the immediately preceding Paragraph, JSCC may cause the Cross Margined JGB Futures Cleared Contracts of the Cross Margining Requestor under the said Paragraph to be settled through offsetting purchases or sale, JGB Futures Position Transfer set forth in Article 2.1.(15)-3 of IRS Business Rules, or any other method considered necessary pursuant to the provisions of IRS Business Rules.
  - 3 When JSCC deems it necessary, JSCC may have another Clearing Participant perform the settlement set forth in the immediately preceding Paragraph, in which case, the entrustment agreement shall be deemed to have been concluded between such Clearing Participant and the Cross Margining User under Paragraph 1.
  - 4 The claims and obligations to be excluded from the claims and obligations cease to exist as set forth in Paragraph 1 shall be the claims and obligations related to cash to be paid/received between JSCC and the Cross Margining Requestor under Paragraph 1 in respect of the Cross Margined JGB Futures Cleared Contracts pursuant to the provisions of Article 73-8 or Article 73-9, which have already become due at the time when the Cross Margining Requestor, the Cross Margining Accepting Party, the Cross Margining User or the JGB Futures Non-Clearing Participant to which the Cross Margining User commissions the brokerage for the JGB Futures Contract, as applicable, referred to in Paragraph 1 falls on the event set forth in the relevant Item of Paragraph 1.

(Article 73-15-5 Application of the provisions of IRS Business Rules related to JGB Futures Position Transfer, etc.)

- 1 The JGB Futures Position Transfer set forth in Paragraph 2 of the preceding Article shall be prescribed by Article 94-3 of IRS Business Rules.
- 2 The designation of JGB Futures Backup Clearing Broker set forth in Article 2.1.(15)-8 of IRS Business rules shall be prescribed by Article 45-3 of IRS Business Rules.

Section 5 Settlement of Option Contract on JGB Futures.

(Article 73-16 Reporting Close-out Quantity and the Like)

1 A JGB Futures Clearing Participant shall, in respect of each issue of Option Contract on JGB Futures, notify JSCC the close-out quantity and the amount of Offsetting Sale or Offsetting Purchase when it has executed Offsetting-Sale or Offsetting-Purchase<sup>\*1</sup>, by each account as set forth in Article 46-3, and by the cutoff time set by JSCC.

(\*1 excluding the case stipulated in the following Paragraph)

2 A JGB Futures Clearing Participant shall, in respect of each issue of Option Contract on JGB Futures, notify JSCC the close-out quantity<sup>\*1</sup>, and, when Offsetting-Sale in respect of the Long Position Subject To Brokerage for Clearing or Offsetting-Purchase in respect of the Short Position Subject To Brokerage for Clearing has been executed, the amount of Offsetting Sale or Offsetting Purchase by an JGB Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing by each account as set forth in Article 46-4, and by the cutoff time set by JSCC. In such case, a JGB Futures Clearing Participant may cause the JGB Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing make such notification in place of JGB Futures Clearing Participant's own notification.

(\*1 limited to those under commission of brokerage for clearing of securities, etc.)

3 When JSCC has received the notification pursuant to the provisions of Paragraph 1, the close-out quantity and the amount of the Offsetting-Sales/Offsetting-Purchases so notified shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position and the Short Position by each account set forth in Article 46-3 that is managed by the relevant JGB Futures Clearing Participant.

4 When JSCC has received the notification pursuant to the provisions of Paragraph 2, the close-out quantity and the amount of the Offsetting-Sales/Offsetting-Purchases so notified shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position Subject To Brokerage for Clearing and the Short Position Subject To Brokerage for Clearing by each account set forth in Article 46-4 that is managed by the relevant JGB Futures Clearing Participant.

5 When JSCC has received the notification set forth in Paragraph 1 or Paragraph 2, JSCC shall inform the Designated Market Operator<sup>\*1</sup> of the close-out quantity and the amount of the Offsetting-Sales and/or the Offsetting-Purchases so notified.

(\*1 referring to the Designated Market Operator operating the Designated Financial Instruments Market prescribed in Item (4) of Paragraph 2 of Article 3; the same applies hereinafter in this Section except for Article 73-19-2)

(Article 73-17 Payment/Receipt of Contract Price)

When a Contract for Clearing in respect of an Option on JGB Futures is formed, the JGB Futures Clearing Participant shall pay/receive the contract price for Option Contract on JGB Futures to/from JSCC on the day immediately following the day on which the Trading Day\*<sup>1</sup> during which the relevant contract was concluded ends. In such case, the JGB Futures Clearing Participant making payment shall pay the money by 11:00 A.M. and the JGB Futures Clearing Participant receiving payment shall receive the money at 1:00 P.M. of the day on which the relevant money is to be paid/received.

(\*<sup>1</sup>referring to the trading day specified by the Designated Market Operator in respect of the Option Contract on JGB Futures; the same applies hereinafter in this Section)

(Article 73-18 Notification of Exercise of Option)

1 An exercise of the right pertaining to the Long Position\*<sup>1</sup> of Option Contract on JGB Futures shall be done by the JGB Futures Clearing Participant's notifying JSCC of the amount pertaining to the exercise in respect of each issue comprising the Long Position\*<sup>2</sup>, which exists at the end of the Trading Day on which the right of the option is to be exercised, by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC which precedes the expiration time of the Option Contract on JGB Futures specified by the Designated Market Operator.

(\*<sup>1</sup> excluding the Long Position Subject To Brokerage for Clearing)

(\*<sup>2</sup> excluding the Long Position Subject To Brokerage for Clearing)

2 An exercise of the right pertaining to the Long Position\*<sup>1</sup> of Option Contract on JGB Futures shall be done by the JGB Futures Clearing Participant's notifying JSCC of the amount pertaining to the exercise in respect of each issue comprising the Long Position Subject To Brokerage for Clearing which exists at the end of the Trading Day on which the option is to be exercised and each JGB Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing, and by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC which precedes the expiration time of the Option Contract on JGB Futures specified by the Designated Market Operator. In such case, a JGB Futures Clearing Participant may cause the JGB Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing make such notification in place of JGB Futures Clearing Participant's own notification.

(\*<sup>1</sup> limited to the Long Position Subject To Brokerage for Clearing)

3 Regarding the issue which falls under any of the following Items on the expiration date of the Exercise Period\*<sup>1</sup>, the notification of the exercise of the option on that issue shall be deemed to have been made even though the notification of the exercise of the right set forth in the preceding two Paragraphs is not made by the cutoff time set by JSCC under said Paragraphs; provided, however, that the foregoing shall not apply in the case where the JGB Futures Clearing Participant notified by such cutoff time to the effect that it will not

exercise the right in respect of such issue:

(\*1 referring to the exercise period of Option Contract on JGB Futures specified by the Designated Market Operator; the same applies hereinafter in this Section)

(1) In respect of Put Option on JGB Futures, in the case where the exercise price exceeds the Settlement Price\*<sup>1</sup> of the Underlying Contract Month of JGB Futures\*<sup>2</sup> on the Trading Day which ends on the expiration date of the Exercise Period;

(\*<sup>1</sup> referring to the Settlement Price prescribed in Article 73-7; the same applies hereinafter in this Section)

(\*<sup>2</sup> referring to the contract month of JGB Futures specified by the Designated Market Operator which underlies the Option on JGB Futures; the same applies hereinafter)

(2) In respect of Call Option on JGB Futures, in the case where the exercise price is lower than the Settlement Price of the Underlying Contract Month of JGB Futures on the Trading Day which ends on the expiration date of the Exercise Period.

4 In the case where JSCC deems it inappropriate to regard the notification of the exercise of option as having been made pursuant to the provisions in the main clause of the preceding Paragraph due to a system failure in the Designated Market Operator's trading system or some other unavoidable reasons, such provisions of the main clause in said Paragraph shall not apply.

5 When JSCC has received the notification of the exercise of option prescribed in Paragraph 1 or Paragraph 2\*<sup>1</sup>, JSCC shall inform the detail of the exercise of option so notified to the Designated Market Operator.

(\*<sup>1</sup> including the case where the notification of the exercise of option is deemed to have been received pursuant to the provisions of Paragraph 3)

(Article 73-19 Assignment of Exercised Option)

1 When a JGB Futures Clearing Participant notifies the exercise of option, JSCC shall make the assignment of the quantity of the exercised option in respect of each issue in accordance with the rules of JSCC at the end of the Trading Day ending on the day on which such notification is made.

2 When JSCC makes the assignment of the quantity of the exercised option pursuant to the provisions in the preceding Paragraph, the quantity pertaining to the relevant notification of the exercise of option and to the assignment shall be regarded as the quantity pertaining to the settlement and such quantity shall be subtracted from the amount of the Long Position or the Short Position\*<sup>1</sup> of the relevant JGB Futures Clearing Participant at the end of the Trading Day ending on the day on which such notification is made.

(\*<sup>1</sup> in the case where the exercised/assigned option pertains to the Long Position Subject To Brokerage for Clearing/Short Position Subject To Brokerage for Clearing, referring to the Long Position Subject To Brokerage for Clearing or the Short Position Subject To Brokerage for Clearing of each JGB Futures Non-Clearing Participant pertaining to

such Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing)

3 When JSCC makes the assignment of the exercised option pursuant to the provisions in Paragraph 1, JSCC shall notify the JGB Futures Clearing Participant to whom such assignment is made\*1 of the quantity of the relevant assignment by separating those for the proprietary account from those pursuant to the commissions by its customers.

(\*1 in the case where the exercised option is assigned to the Short Position Subject To Brokerage for Clearing, the assigned quantity of each JGB Futures Non-Clearing Participant pertaining to the relevant Short Position Subject To Brokerage for Clearing by separating those for the proprietary account from those pursuant to the commissions by its customers)

4 The JGB Futures Clearing Participant which received the notification of the assignment to the Short Position Subject To Brokerage for Clearing pursuant to the provisions of the preceding Paragraph shall notify each JGB Futures Non-Clearing Participant pertaining to the relevant Short Position Subject To Brokerage for Clearing of such assigned quantity by separating those for the proprietary account from those pursuant to the commissions by its customers.

5 When JSCC makes the assignment of the quantity of the exercised option pursuant to the provisions of Paragraph 1, JSCC shall notify the detail of such assignment to the Designated Market Operator.

(Article 73-19-2 Locus of Responsibility in the case where Settlement Price of Contract Month Contract of JGB Futures subject to Exercise is not able to be calculated, etc.)

A JGB Futures Clearing Participant is not entitled to seek indemnity against JSCC and the Designated Market Operator which operates the Designated Financial Instruments Market referred to in Item (3) of Paragraph 2 of Article 3 for any damages suffered by it as a result of an inability, delay or error regarding the calculation of, or as a result of a change in, the Settlement Price of the Contract Month Contract of JGB Futures subject to exercise.

Section 6 Settlement of Index Futures Contract.

(Article 73-20 Reporting Close-out Quantity and the Like)

1 An Index Futures Clearing Participant shall, in respect of Index Futures Contract for each contract month<sup>\*1</sup>, notify JSCC the close-out quantity and the amount of Offsetting Sale or Offsetting Purchase when it has executed Offsetting-Sale or Offsetting-Purchase<sup>\*2</sup>, by each account as set forth in Article 46-3 and by the cutoff time set by JSCC.

(\*<sup>1</sup> referring to the contract month set by the Designated Market Operator<sup>\*2-1</sup>; the same applies hereinafter in this Section)

(\*<sup>1-1</sup> referring to the Designated Market Operator operating the Designated Financial Instruments Market prescribed in Item (5) of Paragraph 2 of Article 3; the same applies hereinafter in this Section)

(\*<sup>2</sup> excluding the case stipulated in the following Paragraph)

2 An Index Futures Clearing Participant shall, in respect of Index Futures Contract for each contract month, notify JSCC the close-out quantity<sup>\*1</sup>, and, when Offsetting-Sale in respect of the Long Position Subject To Brokerage for Clearing or Offsetting-Purchase in respect of the Short Position Subject To Brokerage for Clearing has been executed, the amount of Offsetting Sale or Offsetting Purchase by an Index Futures Non-Clearing Participant<sup>\*2</sup> pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing by each account as set forth in Article 46-4 and by the cutoff time set by JSCC. In such case, an Index Futures Clearing Participant may cause the Index Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing make such notification in place of Index Futures Clearing Participant's own notification.

(\*<sup>1</sup> limited to those under commission of brokerage for clearing of securities, etc.)

(\*<sup>2</sup> referring to the entity who has the trading qualification in respect of Index Futures Contract but does not have Index Futures Clearing Qualification; the same applies hereinafter in this Section)

3 When JSCC has received the notification pursuant to the provisions of Paragraph 1, the close-out quantity and the amount of the Offsetting-Sales/Offsetting-Purchases so notified shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position and the Short Position by each account set forth in Article 46-3 that is managed by the relevant Index Futures Clearing Participant.

4 When JSCC has received the notification pursuant to the provisions of Paragraph 2, the close-out quantity and the amount of the Offsetting-Sales/Offsetting-Purchases so notified shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position Subject To Brokerage for Clearing and the Short Position Subject To Brokerage for Clearing by each account set forth in Article 46-4 that is managed by the relevant Index Futures Clearing Participant.

5 When JSCC has received the notification set forth in Paragraph 1 or Paragraph 2, JSCC shall inform the Designated Market Operator of the close-out quantity and the amount of the Offsetting-Sales and/or the Offsetting-Purchases so notified.

(Article 73-21 Settlement Price)

For each Trading Day<sup>\*1</sup>, JSCC shall set the Settlement Price for Index Futures Contract in respect of each contract month in accordance with the rules of JSCC.

(\*1 referring to the trading day specified by the Designated Market Operator in respect of Index Futures Contract; the same applies hereinafter in this Section)

(Article 73-22 Payment/Receipt of Difference between Contract Price and Settlement Price)

If there is any difference between the contract price<sup>\*1</sup> of an Index Futures Contract and the Settlement Price as of the Trading Day on which the relevant trading contract was concluded, the Index Futures Clearing Participant shall pay/receive the money equivalent to such difference to/from JSCC on the day immediately following the day on which the relevant Trading Day ends. In this case, the Index Futures Clearing Participant making payment shall pay the money by 11:00 A.M., and the Index Futures Clearing Participant receiving payment shall receive the money at 1:00 P.M. on the day on which the relevant money is to be paid/received.

(\*1 referring to the contract price index or contract price set by the Designated Market Operator; the same applies hereinafter)

(Article 73-23 Payment/Receipt of Difference between Settlement Prices)

If there is any difference between the Settlement Price on the given Trading Day and the Settlement Price on the day immediately preceding Trading Day, the Index Futures Clearing Participant shall pay/receive the money equivalent to such difference to/from JSCC on the day immediately following the day on which such given Trading Day ends. In this a case, the Index Futures Clearing Participant making payment shall pay the money by 11:00 A.M. and the Index Futures Clearing Participant receiving payment shall receive the money at 1:00 P.M. on the day on which the relevant money is to be paid/received.

(Article 73-24 Payment/Receipt upon Final Settlement)

Upon the Final Settlement on Index Futures Contract<sup>\*1</sup>, if there is any difference between the Final Settlement Price <sup>\*2</sup> and the Settlement Price on the Last Trading Day<sup>\*3</sup>, the Index Futures Clearing Participant shall pay/receive the money equivalent to such difference to/from JSCC on the Final Settlement Day<sup>\*4</sup>. In this case, the Index Futures Clearing Participant making payment shall pay the money by 11:00 A.M., and the Index Futures Clearing Participant receiving payment shall receive the money at 1:00 P.M. on the day on which the relevant money is to be paid/received.

(\*<sup>1</sup> referring to the final settlement in respect of Index Futures Contract prescribed by the Designated Market Operator)

(\*<sup>2</sup> referring to the final settlement price set by the Designated Market Operator; the same applies hereinafter in the following Article)

(\*<sup>3</sup> referring to the last trading day specified by the Designated Market Operator in respect of Index Futures Contract)

(\*<sup>4</sup> referring to the final settlement day specified by the Designated Market Operator in respect of Index Futures Contract)

(Article 73-25 Locus of Responsibility in the case where Settlement Price is not able to be calculated, etc.)

Index Futures Clearing Participant is not entitled to seek indemnity against JSCC, Designated Market Operator and/or the entity calculating index\*<sup>1</sup> for any damages suffered by it as a result of an inability, delay or error regarding the calculation or distribution of index or as a result of a change in the Final Settlement Price.

(\*<sup>1</sup> including the entity to whom the calculation of index is deputed by that former entity)

Section 7 Settlement of Index Option Contract.

(Article 73-26 Reporting of Close-out Quantity and the Like)

1 An Index Futures Clearing Participant shall, in respect of any issue of Index Option Contract, notify JSCC the close-out quantity and the amount of Offsetting Sale or Offsetting Purchase when it has executed Offsetting-Sale or Offsetting-Purchase<sup>\*1</sup>, by each account as set forth in Article 46-3, by the cutoff time set by JSCC.

(\*1 excluding the case stipulated in the following Paragraph)

2 An Index Futures Clearing Participant shall, in respect of any issue of Index Option Contract, notify JSCC the close-out quantity<sup>\*1</sup>, and, when Offsetting-Sale in respect of the Long Position Subject To Brokerage for Clearing or Offsetting-Purchase in respect of the Short Position Subject To Brokerage for Clearing has been executed, the amount of Offsetting Sale or Offsetting Purchase by an JGB Futures Non-Clearing Participant<sup>\*2</sup> pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing by each account as set forth in Article 46-4, and by the cutoff time set by JSCC. In such case, an Index Futures Clearing Participant may cause the Index Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing make such notification in place of Index Futures Clearing Participant's own notification.

(\*1 limited to those under commission of brokerage for clearing of securities, etc.)

(\*2 referring to the entity which holds trading qualification relating to Index Option Contract but does not hold Index Futures Clearing Qualification; the same applies hereinafter in this Section)

3 When JSCC has received the notification pursuant to the provisions of Paragraph 1, the close-out quantity and the amount of the Offsetting-Sales/Offsetting-Purchases so notified shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position and the Short Position by each account set forth in Article 46-3 that is managed by the relevant Index Futures Clearing Participant.

4 When JSCC has received the notification pursuant to the provisions of Paragraph 2, the close-out quantity and the amount of the Offsetting-Sales/Offsetting-Purchases so notified shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position Subject To Brokerage for Clearing and the Short Position Subject To Brokerage for Clearing by each account set forth in Article 46-4 that is managed by the relevant Index Futures Clearing Participant.

5 When JSCC has received the notification set forth in Paragraph 1 or Paragraph 2, JSCC shall inform the Designated Market Operator<sup>\*1</sup> of the close-out quantity and the amount of the Offsetting-Sales and/or the Offsetting-Purchases so notified.

(\*1 referring to the Designated Market Operator operating the Designated Financial Instruments Market prescribed in Item (6) of Paragraph 2 of Article 3; the same applies

hereinafter in this Section)

(Article 73-27 Payment/Receipt of Contract Price)

When a Contract for Clearing in respect of Index Option Contract is formed, the Index Futures Clearing Participant shall pay/receive the contract price for Index Option Contract to/from JSCC on the day immediately following the day on which the Trading Day\*<sup>1</sup> during which the relevant contract is concluded ends. In such case, an Index Futures Clearing Participant making payment shall pay the money by 11:00 A.M., and an Index Futures Clearing Participant receiving payment shall receive the money at 1:00 P.M. of the day on which the relevant money is to be paid/received.

(\*<sup>1</sup> referring to the trading day specified by the Designated Market Operator in respect of the Index Option Contract; the same applies hereinafter in this Section)

(Article 73-28 Notification of Exercise of Option)

1 An exercise of the right pertaining to the Long Position\*<sup>1</sup> of Index Option Contract shall be done by the Index Futures Clearing Participant's notifying JSCC of the amount pertaining to the exercise in respect of each issue by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC which precedes the expiration time of the Index Option Contract specified by the Designated Market Operator

(\*<sup>1</sup> excluding the Long Position Subject To Brokerage for Clearing)

2 An exercise of the right pertaining to the Long Position\*<sup>1</sup> of Index Option Contract shall be done by the Index Futures Clearing Participant's notifying JSCC of the amount pertaining to the exercise in respect of each issue and each Index Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing, and by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC which precedes the expiration time of the Index Option Contract specified by the Designated Market Operator. In such case, an Index Futures Clearing Participant may cause the Index Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing make such notification in place of Index Futures Clearing Participant's own notification.

(\*<sup>1</sup> limited to the Long Position Subject To Brokerage for Clearing)

3 Regarding the issue which falls under any of the following Items on the Exercise Date\*<sup>1</sup>, the Index Futures Clearing Participant cannot make the notification of the exercise of the right set forth in the preceding two Paragraphs:

(\*<sup>1</sup> referring to the exercise date specified by the Designated Market Operator in respect of Index Option Contract; the same applies hereinafter in this Section)

(1) In respect of Index Put Option, in the case where the exercise price is at the Option Settlement Price\*<sup>1</sup> or lower;

(\*1 referring to the Option Settlement Price set by the Designated Market Operator; the same applies hereinafter in this Section)

(2) In respect of Index Call Option, in the case where the exercise price is at the Option Settlement Price or higher.

4 Regarding the issue which falls under any of the following Items on the Exercise Date, the notification of the exercise of the option on that issue shall be deemed to have been made even though the notification of the exercise of the right is not made by the cutoff time on the relevant day set by JSCC under Paragraph 1 or Paragraph 2; provided, however, that the foregoing shall not apply in the case where the Index Futures Clearing Participant notified by such cutoff time to the effect that it will not exercise the right in respect of such issue:

(1) In respect of Index Put Option, in the case where the exercise price exceeds the Option Settlement Price;

(2) In respect of Index Call Option, in the case where the exercise price is lower than the Option Settlement Price.

5 When JSCC has received the notification of the exercise of option prescribed in Paragraph 1 or Paragraph 2\*1, JSCC shall inform the detail of the exercise of option so notified to the Designated Market Operator.

(\*1 including the case where the notification of the exercise of option is deemed to have been received pursuant to the provisions of the preceding Paragraph)

(Article 73-29 Assignment of Exercised Option)

1 When an Index Futures Clearing Participant notifies the exercise of option, JSCC shall make the assignment of the quantity of the exercised option in respect of each issue in accordance with the rules of JSCC.

2 When JSCC makes the assignment of the quantity of the exercised option pursuant to the provisions of the preceding Paragraph, JSCC shall notify the Index Futures Clearing Participant to whom such assignment is made\*1, of the quantity of the relevant assignment by separating those for the proprietary account from those pursuant to the commissions by its customers.

(\*1 in the case where the exercised option is assigned to the Short Position Subject To Brokerage for Clearing, the assigned quantity of each Index Futures Non-Clearing Participant pertaining to the relevant Short Position Subject To Brokerage for Clearing by separating those for the proprietary account from those pursuant to the commissions by its customers)

3 The Index Futures Clearing Participant which received the notification of the assignment to the Short Position Subject To Brokerage for Clearing pursuant to the provisions of the preceding Paragraph shall notify each Index Futures Non-Clearing Participant pertaining to the relevant Short Position Subject To Brokerage for Clearing of the assigned quantity by separating those for the proprietary account from those pursuant to the commissions by its

customers.

- 4 When JSCC makes the assignment of the quantity of the exercised option pursuant to the provisions of Paragraph 1, JSCC shall notify the detail of such assignment to the Designated Market Operator.

(Article 73-30 Payment/Receipt on the Settlement of Exercised Option)

When the right pertaining to Index Option Contract is exercised, the Index Futures Clearing Participant shall pay/receive the money equivalent to the difference between its exercise price and the Option Settlement Price to/from JSCC on the day following the day on which the relevant right is exercised. In such case, an Index Futures Clearing Participant making payment shall pay the money by 11:00 A.M., and an Index Futures Clearing Participant receiving payment shall receive the money at 1:00 P.M. on the day on which the relevant money to be paid/received.

(Article 73-31 Locus of Responsibility in the case where Option Settlement Price is not able to be calculated, etc.)

Index Futures Clearing Participant is not entitled to seek indemnity against JSCC, Designated Market Operator and/or the entity calculating index\*<sup>1</sup> for any damages suffered by it as a result of an inability, delay or error regarding the calculation or distribution of index or as a result of a change in the Option Settlement Price.

(\*<sup>1</sup> including the entity to whom the calculation of index is deputed by that former entity)

Section 8 Settlement of Exchange FX Contract.

(Article 73-32 Notification of Position)

1 An FX Clearing Participant shall notify JSCC of the number of Long Positions<sup>\*1</sup> and the number of Short Positions<sup>\*2</sup> relating to an Exchange FX Contract in respect of each Subject Financial Index<sup>\*3</sup>, and by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC. Provided, however, when the FX Clearing Participant has executed an Offsetting-Sale or Offsetting-Purchase, it shall notify the number after deducting the number subject to such Offsetting-Sale or Offsetting-Purchase as regarding them as the number relating to settlement.

(\*1 excluding Long Position Subject To Brokerage for Clearing)

(\*2 excluding Short Position Subject To Brokerage for Clearing)

(\*3 referring to the subject financial index set by the Designated Market Operator<sup>\*3-1</sup>; the same applies hereinafter in this Section)

(\*3-1 referring to the Designated Market Operator operating the Designated Financial Instruments Market prescribed in Item (11) of Paragraph 2 of Article 3; the same applies hereinafter in this Section)

2 An FX Clearing Participant shall notify JSCC of the number of Long Positions Subject To Brokerage for Clearing and the number of Short Positions Subject To Brokerage for Clearing relating to an Exchange FX Contract in respect of each Subject Financial Index and in respect of each FX Non-Clearing Participant<sup>\*1</sup> relating to such Long Position Subject To Brokerage for Clearing or such Short Position Subject To Brokerage for Clearing, and by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC. Provided, however, when an Offsetting-Sale or Offsetting-Purchase has been executed, such Clearing Participant shall notify the number after deducting the number subject to such Offsetting-Sale or Offsetting-Purchase as regarding them as the number relating to settlement. In such case, the FX Clearing Participant may cause the FX Non-Clearing Participant relating to such Long Position Subject To Brokerage for Clearing or such Short Position Subject To Brokerage for Clearing to file such notification in place of the FX Clearing Participant.

(\*1 referring to the entity which has the trading qualification in respect of Exchange FX Contract but does not have FX Clearing Qualification; the same applies hereinafter)

3 The FX Clearing Participant shall calculate and record the number subject to the notification under the preceding two Paragraphs immediately after the trading session of each Trading Day<sup>\*1</sup>.

(\*1 referring to the Trading Day designated by the Designated Market Operator in respect of an Exchange FX Contract; the same applies hereinafter in this Section)

(Article 73-33 Settlement Price and Swap Point Standard Price)

JSCC shall, pursuant to its rules, prescribe the Settlement Price and swap point standard price of each Trading Day in respect of each Subject Financial Index of Exchange FX Contract after the close of session on such Trading Day.

(Article 73-34 Payment/Receipt of Initial Mark to the Market Result)

If there is any difference in an Exchange FX Contract between the contract price and the Settlement Price on the Trading Day on which such Exchange FX Contract is executed in respect of a Position for which a rollover<sup>\*1</sup> is executed at the close of trading session of that Trading Day and which has arisen from the contract formed during such session, the FX Clearing Participant shall pay/receive money equivalent to such difference to/from JSCC on the settlement day<sup>\*2</sup> relating to such Trading Day.

(\*1 referring to the rollover prescribed by the Designated Market Operator; the same applies hereinafter)

(\*2 referring to the day following the closing day of the Trading Day<sup>\*2-1</sup>)

(\*2-1 if it falls on a Non-business Day, it shall be the immediately following business day; the same applies hereinafter in this Section)

(Article 73-35 Payment /Receipt of Net Difference to Previous Day)

If there is any difference in an Exchange FX Contract between the Settlement Price on the Trading Day on which a rollover is executed and the Settlement Price on the Trading Day immediately preceding such Trading Day in respect of a Position for which such rollover is operated at the close of trading session of such Trading Day and which has arisen from the contract formed prior to such session, the FX Clearing Participant shall pay/receive money equivalent to such difference to/from JSCC on the settlement day relating to such Trading Day.

(Article 73-35-2 Payment/Receipt of Final Settlement Balance)

In the Final Settlement of Exchange FX Contracts<sup>\*1</sup>, FX Clearing Participants shall pay/receive money described in below listed items to/from JSCC on the Final Settlement Date<sup>\*2</sup>:

(\*1 referring to the Final Settlement of Exchange FX Contracts prescribed by the Designated Market Operator)

(\*2 referring to the Final Settlement Date of Exchange FX Contracts prescribed by the Designated Market Operator)

- (1) In respect of a Position existing on the Last Trading Day<sup>\*1</sup> which has arisen from the contract formed during the session on such Last Trading Day, the amount equal to the difference, if any, between the contract price of the relevant contract and the Final Settlement Price<sup>\*2</sup> on the Trading Day on which such contract is executed; and

(2) In respect of a Position existing on the Last Trading Day which has arisen from the contract formed prior to the opening of the session on the Last Trading Day, the amount equal to the difference, if any, between the Final Settlement Price and the Settlement Price on the previous Trading Day.

(\*<sup>1</sup> referring to the Last Trading Day prescribed by the Designated Market Operator in respect of Exchange FX Contracts; the same applies hereinafter in this Article)

(\*<sup>2</sup> referring to the Final Settlement Price prescribed by the Designated Market Operator; the same applies hereinafter in this Article)

(Article 73-36 Delivery or Receipt of Swap Points)

When a rollover of Position is executed in an Exchange FX Contract at the close of trading session on any Trading Day, FX Clearing Participant shall deliver/receive to/from JSCC the amount of money equivalent to the amount obtained by multiplying the swap point standard price of each Subject Financial Index by the difference between the number of the Long Positions subject to such rollover and the number of the Short Positions subject to such rollover\*<sup>1</sup>, on the settlement day relating to such Trading Day.

(\*<sup>1</sup> hereinafter referred to as "Swap Points")

(Article 73-37 Payment /Receipt of Settlement Balance)

When an Offsetting-Sale or Offsetting-Purchase is executed in an Exchange FX Contract, FX Clearing Participant shall pay/receive to/from JSCC the sum of money set forth in the following Items according to the classification of the Position set forth in such Items on the settlement day relating to the Trading Day on which such Offsetting-Sale or Offsetting-Purchase is executed:

(1) For Position relating to the contract formed on the Trading Day on which such Offsetting-Sale or Offsetting-Purchase is executed:

The amount of money equivalent to the difference between the contract price of the Position and the contract price of such Offsetting-Sale or Offsetting-Purchase transaction

(2) For Position relating to the contract formed on or prior to the Trading Day immediately preceding the Trading Day on which such Offsetting-Sale or Offsetting-Purchase transaction is executed:

The amount of money equivalent to the difference between the Settlement Price on such immediately preceding Trading Day and the contract price related to such Offsetting-Sale or Offsetting-Purchase.

(Article 73-38 Net Difference to Previous Day relating to Non-Yen Financial Index)

The amount of money equivalent to the difference prescribed in each of Article 73-34 through Article 73-37 in respect of an Exchange FX Contract relating to the Non-Yen Financial Index\*<sup>1</sup> shall be computed in accordance with the rules prescribed by JSCC.

(\*1 referring to the non-yen financial index prescribed by the Designated Market Operator)

(Article 73-39 Locus of Responsibility in the case where Settlement Price, etc. is not able to be Calculated, etc.)

An FX Clearing Participant is not entitled to seek indemnity against JSCC or the Designated Market Operator for any damages suffered by it as a result of an inability, delay or error regarding the calculation or distribution of, or change, etc. in, Settlement Price or swap point standard price.

Section 9 Miscellaneous Clauses.

(Article 73-40 Amount of Money to be Paid/Received for Futures and Options, and Its Method)

1 The payment and receipt of the amount of money pursuant to the provisions of Article 73-3, Article 73-8, Article 73-9, Article 73-9-2, Article 73-17, Article 73-22 through Article 73-24, Article 73-27 and Article 73-30 shall be performed in the amount set forth below according to the below-listed classification:

(1) Classification set forth in Items (1) and (3) of Article 46-3

The sum of the differences between the amount to be paid and amount to be received in respect of the accounts set forth in Item (1) and Item (3), a. and b. of Article 46-3 of the same Clearing Participant;

(2) Classification set forth in Item (2) of Article 46-3 and Items (1) and (2) of Article 46-4

The sum of the differences between the amount to be paid and amount to be received in respect of the accounts set forth in Item (2) of Article 46-3, Item (1) and Item (2) a. and b. of Article 46-4 of the same Clearing Participant.

2 The payment/receipt of money set forth in the preceding Paragraph shall be made between the Clearing Participant and JSCC. The payment/receipt method in this case shall be in accordance with the rules of JSCC.

3 In the case prescribed by JSCC, a Clearing Participant may, in lieu of the payment and receipt of money as set forth in the preceding two Paragraphs, pay and receive, by each account set forth in Article 46-3 and Article 46-4 that are managed by that Clearing Participant, the net of the amount to be paid and the amount to be received in respect of the relevant account in a manner prescribed by JSCC.

(Article 73-41 Amount of Money to be Paid/Received for Futures and Options, and its Method)

1 The amount of money to be paid/received pursuant to the provisions of Article 73-34 through Article 73-38 shall be the difference between the total amount to be paid and the total amount to be received by the same FX Clearing Participant for each purpose of deposit made by such FX Clearing Participant\*<sup>1</sup>.

(\*<sup>1</sup> referring to the classification of the Margins prescribed in Paragraph 1 of Article 19 of the Rules on Margins, etc. for Exchange FX Contracts; the same applies hereinafter)

2 In addition to those set forth in the preceding Paragraph, matters necessary to be prescribed in relation to the amount of money to be paid/received pursuant to the provisions of Article 73-34 through Article 73-38 shall be prescribed by JSCC.

(Article 73-42 Application of the Rules in the Event of the Give-up)

With respect to the Futures and Option Contracts which are newly formed as a result of the completion of the Give-up, the Clearing Participant which is also the Trading Participant Executing Clearance\*<sup>1</sup> is deemed to have concluded the relevant Futures and Option

Contracts, and the provisions of this Chapter and the following Chapter shall apply accordingly.

(\*<sup>1</sup> in the case where the relevant Trading Participant Executing Clearance is a Non-Clearing Participant, referring to its Designated Clearing Participant)

Chapter 5-2 Succession of Margin and Unsettled Contract, etc.

(Article 73-43 Succession of Margin and Unsettled Contract, etc.)

- 1 The matters with respect to the Margin relating to the Futures and Option Contracts and the handling of Unsettled Contracts, etc. in the event of the suspension of assumption of obligation due to default, etc. in the Securities and Similar Contract Clearing Business performed by JSCC shall be prescribed in the Rules on Margins, etc. for Futures and Option Contracts.
- 2 The matters with respect to the Margin relating to the Exchange FX Contracts and the handling of Unsettled Contracts, etc. in the event of the suspension of assumption of obligation due to default, etc. in the Securities and Similar Contract Clearing Business performed by JSCC shall be prescribed in the Rules on Margins, etc. for Exchange FX Contracts.

Chapter 5-3 Position Transfers

## (Article 73-44 Position Transfers)

1 In addition to the cases stipulated separately in these Business Rules, a Clearing Participant may, after obtaining JSCC's approval, transfer its Unsettled Contracts relating to Futures and Option Contracts<sup>\*1</sup> to other Clearing Participants.

(\*1 excluding those Unsettled Contracts which are contract month contracts<sup>\*1-1</sup> remaining after 1:00 P.M. on the second day from and including the Last Trading Day <sup>\*1-1</sup> of such contract month contract whose Last Trading Day for the Large contract has arrived and Cross Margined JGB Futures Cleared Contracts; the same applies hereinafter in this Chapter)

(\*1-1 referring to the last trading day specified by the Designated Market Operator<sup>\*1-2-1</sup> with respect to the contracts in question)

(\*1-2-1 referring to the Designated Market Operator which operates the Designated Financial Instruments Market prescribed in Item (3) of Paragraph 2 of Article 3)

2 When a Clearing Participant transfers its Unsettled Contracts pursuant to the provisions of the preceding Paragraph<sup>\*1</sup>, it shall obtain acknowledgement of another Clearing Participant as to the Position Transfer and submit an application to JSCC by the cutoff time prescribed by JSCC in accordance with the rules prescribed by JSCC.

(\*1 hereinafter referred to as the "Position Transfer" in this Chapter)

3 In the case of the immediately preceding Paragraph, the Position Transfer shall become effective when JSCC approves such Position Transfer.

4 When implementing the Position Transfer relating to the Contracts Subject to Clearing listed in Item (3) and Item (5) of Paragraph 2 of Article 3, the Settlement Price of each contract month contract on the Trading Day<sup>\*1</sup> which ends on the day immediately preceding the day on which the relevant Position Transfer is to be implemented shall be used as the contract price pertaining to such Position Transfer.

(\*1 referring to the trading day prescribed by the Designated Market Operator with respect to Futures and Option Contracts; the same applies hereinafter)

5 In the event that an Agency Clearing Participant received notification from a Non-Clearing Participant concerning the Position Transfer in accordance with the rules prescribed by the Designated Market Operator, such Agency Clearing Participant shall submit to JSCC an application setting forth the content thereof by the cutoff time prescribed by JSCC and in accordance with the rules prescribed by JSCC, and obtain JSCC's approval.

## (Article 73-45 Suspension of Position Transfers)

In the event that JSCC determines it difficult to permit transfers of Positions on a continuing

basis due to failure of operation of the system for transfers of Positions or other reason, JSCC may suspend transfer of Positions.

Chapter 6 Clearing Deposit

(Article 74 Clearing Deposit)

The initial margin prescribed in Article 15-2, the clearing fund prescribed in Article 16, the Security Money for Facilitating DVP Settlement prescribed in Article 52, and the Margin prescribed in Article 70, all of which JSCC shall receive from Clearing Participants in order to ensure the performance of their obligations, shall be the Clearing Deposit prescribed in Article 156-11 of the Act.

(Article 75 Management of Clearing Deposit)

JSCC shall hold the Clearing Deposit set forth in the preceding Article by segregating it from its proprietary assets through such methods as utilizing a separate account, and manage it on a book in respect of each Clearing Participant by demarcating each of the initial margin set forth in each item of Paragraph 1 of Article 15-2, clearing fund set forth in each item of Paragraph 1 of Article 16, Security Money for Facilitating DVP Settlement and the Margin.

Chapter 7 Measures, etc. in case of Settlement Default by Clearing Participant

## Section 1 General Rules

(Article 75-2 Use of Clearing Fund for Settlement at the Time of Settlement Default)

1 When a Clearing Participant fails to perform its settlement of Contracts for Clearing and JSCC considers it difficult to have such Clearing Participant complete the settlement of Contracts for Clearing through borrowing from other persons or any other means, JSCC may use the clearing fund\*<sup>1</sup> deposited by Clearing Participants other than the Clearing Participant caused such failure\*<sup>2</sup> as of the date of occurrence of such failure\*<sup>3</sup> to complete the settlement of the Contracts for Clearing\*<sup>4</sup>.

(\*<sup>1</sup> limited to those deposited in Japanese yen; the same applies in the following Article)

(\*<sup>2</sup> hereinafter referred to as "Clearing Participants on Settlement Use Commencement Date")

(\*<sup>3</sup> hereinafter referred to as "Settlement Use Commencement Date")

(\*<sup>4</sup> hereinafter referred to as "Settlement Use")

2 The Settlement Use will be performed to the extent JSCC deems necessary in the amount up to the required amount of clearing fund in respect of the Clearing Participants on Settlement Use Commencement Date as of the day immediately preceding the Settlement Use Commencement Date.

3 When JSCC implemented the Settlement Use, JSCC shall notify such effect to the Clearing Participants on Settlement Use Commencement Date without delay.

(Article 75-3 Refund of Clearing Fund upon Settlement Use)

When implementing the Settlement Use, JSCC may suspend refund of clearing fund to the Clearing Participants on Settlement Use Commencement Date until the termination of the Settlement Use pursuant to the provisions of the following Article.

(Article 75-4 Termination of Settlement Use)

1 The Settlement Use shall terminate when JSCC considers that the settlement of Contracts for Clearing to which the Settlement Use relates has been completed.

2 Upon termination of the Settlement Use pursuant to the provisions of the immediately preceding Paragraph, JSCC shall notify such effect to the Clearing Participants on Settlement Use Commencement Date without delay.

3 Upon termination of the Settlement Use pursuant to the provisions of Paragraph 1, JSCC shall pay the amount prescribed by JSCC to the Clearing Participants on Settlement Use Commencement Date in a manner prescribed by JSCC.

(Article 76 Measures in case of Settlement Default)

- 1 When a Clearing Participant does not perform the settlement of Contracts for Clearing or JSCC deems there is a real possibility that a Clearing Participant does not perform the settlement of Contracts for Clearing, JSCC shall implement the measures, to the extent and for the period that JSCC deems necessary, to suspend the assumption of the obligations under the Contracts Subject to Clearing to which such Clearing Participant\*<sup>1</sup> is a party and to suspend such Clearing Participant from receiving all or part of the securities and money which were to be received from JSCC.  
(\*<sup>1</sup> hereinafter referred to as the "Default Clearing Participant")
- 2 In the event that the Default Clearing Participant does not perform the settlement of Contracts for Clearing, JSCC may cause other Clearing Participants to sell or buy the securities or to perform similar acts which are necessary for the handling of the relevant default.
- 3 JSCC may apply the securities and money, the receipt of which was suspended pursuant to the provisions of Paragraph 1, to satisfy the obligations pertaining to the default of the settlement of Contracts for Clearing by the Default Clearing Participant.
- 4 The Default Clearing Participant which has been subjected to the measure of suspending assumption of obligations pursuant to the provisions of Paragraph 1 may, after obtaining JSCC's approval, transfer its unsettled Contracts for Clearing pertaining to the Contracts Subject to Clearing constituting the obligations which became subjected to such measure to other Clearing Participants during the duration of such measure; provided, however, that the foregoing shall not apply in the case where the measure of suspending assumption was imposed against all the obligations under the Contracts Subject to Clearing to which the Default Clearing Participant is a party pursuant to the provisions of the following Paragraph.
- 5 In the event that JSCC has taken the measure set forth in Paragraph 1, if the Default Clearing Participant became insolvent, or if JSCC deems that there is a real possibility for the Default Clearing Participant to become insolvent or it is especially necessary to do so, notwithstanding the provisions of said Paragraph, JSCC may impose the measure of suspending assumption of all the obligations under the Contracts Subject to Clearing to which the Default Clearing Participant is a party and of suspending the Default Clearing Participant from receiving securities and money which were to be received from JSCC, until the cause thereof ceases to exist.
- 6 The provisions of Paragraph 3 shall apply *mutatis mutandis* to the securities and money the receiving of which was suspended pursuant to the provisions of the preceding Paragraph.
- 7 In the event that JSCC has suspended assumption of all the obligations under the Contracts Subject to Clearing to which the Default Clearing Participant is a party pursuant to the provisions of Paragraph 5, JSCC may, taking into consideration the composition and size of the Default Clearing Participant's portfolio of Unsettled Contracts\*<sup>1</sup> and market conditions, cause the Default Clearing Participant to transfer to other Clearing Participants,

perform Offsetting Sale or Offsetting Purchase of, exercise, or execute hedge transactions<sup>\*2</sup> on the account of the relevant Default Clearing Participant in respect of, the relevant Defaulted Contracts and cause other arrangements that JSCC deems necessary to be made.

(\*<sup>1</sup> hereinafter referred to as “Defaulted Contracts”)

(\*<sup>2</sup> referring to Contracts Subject to Clearing to be executed to avoid all or part of losses that JSCC may incur up to the time when the arrangement set forth in this Paragraph is made)

8 If the Defaulted Contracts remain even after the implementation of the measures set forth in the immediately preceding Paragraph, and only when JSCC considers it necessary to prevent emergence or expansion of loss set forth in Paragraph 1 of Article 78, JSCC may hold an auction for default settlement<sup>\*1</sup>.

(\*<sup>1</sup> referring to an auction process to have transactions for the purpose of the liquidation of the Defaulted Contracts executed; the same applies hereinafter)

9 Only to the extent necessary to make the arrangements set forth in Paragraph 7, JSCC may assume, from the Default Clearing Participant which has been subjected to the measure of suspending assumption of all the obligations pursuant to the provisions of Paragraph 5, the obligations under the relevant Default Clearing Participant’s Contracts Subject to Clearing.

10 When JSCC deems it necessary to do so, JSCC may cause other Clearing Participants to make the arrangements set forth in Paragraph 7.

11 In the case of Paragraph 2 and the preceding Paragraph, an entrustment agreement shall be deemed to have been formed between such other Clearing Participant and the Clearing Participant subject to the suspension of assumption of obligations.

(Article 77 Notification of Imposition of Measure to Suspend Assumption of Obligation)

In the event that JSCC has imposed the measure of suspending assumption of the obligations under the Contracts Subject to Clearing to which a Clearing Participant is a party pursuant to the provisions of Paragraph 1 or Paragraph 5 of the immediately preceding Article, JSCC shall notify to that effect to all the other Clearing Participants having Clearing Qualification of the same category as that of the relevant Clearing Participant’s one.

(Article 78 Compensation for Loss Caused by Default)

1 In the event that JSCC has suffered loss<sup>\*1</sup> as a result of the nonperformance of the settlement of the Contracts for Clearing by the Default Clearing Participant, each of the following deposit<sup>\*2</sup> shall be applied to compensate such loss according to the purpose thereof:

(\*<sup>1</sup> including the loss JSCC incurred in the course of the handling of such default<sup>\*1-1</sup>)

(\*<sup>1-1</sup> including the handling which takes place when JSCC deems that there is a real possibility of default)

(\*<sup>2</sup> in case of securities in lieu of cash, the amount obtained through liquidation of such securities in a manner prescribed by JSCC)

- (1) Margin for buying/selling transaction deposited with JSCC by the Default Clearing Participant;
- (2) Security Money for Facilitating DVP Settlement deposited with JSCC by the Default Clearing Participant;
- (3) Margin relating to the Futures and Option Contracts and Margin relating to the Exchange FX Contracts for the proprietary account deposited with JSCC by the Default Clearing Participant;
- (4) Margin relating to the Futures and Option Contracts and Margin relating to the Exchange FX Contracts in respect of which the Default Clearing Participant has a claim for refund\*<sup>1</sup>

(\*<sup>1</sup> excluding the Margin set forth in the immediately preceding Item);

- (5) Initial margin deposited with JSCC by the Defaulting Clearing Participant;
- (6) Clearing fund deposited with JSCC by the Default Clearing Participant.

2 In addition to the sources set forth in the immediately preceding Paragraph, JSCC shall be compensated for its loss from the following sources:

- (1) Regarding the deposit set forth in each Item of the immediately preceding Paragraph, if there is any residual amount after being used for its original purpose, such residual amount;
- (2) Other deposits that the Default Clearing Participant has deposited with JSCC\*<sup>1</sup>; and  
(\*<sup>1</sup> if JSCC has used it for its original purpose, the remaining amount)
- (3) Excess collateral\*<sup>1</sup> that the Default Clearing Participant has deposited with JSCC in connection with any Other Clearing Business\*<sup>2</sup>

(\*<sup>1</sup> referring to the margin, clearing fund or other collateral\*<sup>1-1</sup> which the Default Clearing Participant has deposited with JSCC in connection with any Other Clearing Business\*<sup>2</sup>, that remains after the application to the payment of the obligations of the Default Clearing Participant in accordance with the provisions of the business rules of such Other Clearing Business)

(\*<sup>1-1</sup> limited only to those of which the Default Clearing Participant has the claim for refund)

(\*<sup>2</sup> referring to the Financial Instruments Obligation Assumption Business conducted by JSCC and businesses pertaining thereto, other than the Securities and Similar Contract Clearing Business; the same applies hereinafter)

3 If any part of the loss in respect of each category of Clearing Qualification remains uncompensated after the operation of the provisions of the preceding two Paragraphs, and if the relevant Default Clearing Participant is a trading participant or a member of a

Financial Instruments Exchange, the participant bond\*<sup>1</sup> which the relevant Default Clearing Participant has deposited with the Financial Instruments Exchange where it has the trading qualification or is a member shall be applied to compensate for the remaining loss.

(\*<sup>1</sup> if the customers or the Financial Instruments Exchange has exercised the preferential right to receive payment in respect of the bond, its balance)

4 If any part of the loss in respect of each category of Clearing Qualification remains uncompensated after the operation of the provisions of the preceding three Paragraphs, and if there is any money to be received as a result of a third party guarantee against loss or other money or other assets with the particular purpose to compensate the relevant loss\*<sup>1</sup>, JSCC shall be compensated with such money and assets.

(\*<sup>1</sup> excluding the charge set forth in Paragraph 7 and the following Article)

5 If any part of the loss in respect of each category of Clearing Qualification remains uncompensated after the operation of the provisions of Paragraph 1 through Paragraph 4, JSCC shall be compensated from the Securities and Similar Contracts Settlement Guarantee Reserve maintained by JSCC.

6 The amount of the Securities and Similar Contracts Settlement Guarantee Reserve maintained by JSCC referred to in the preceding Paragraph shall be the amount reserved or otherwise set aside in the manners prescribed by JSCC.

7 The matters necessary for the loss compensation prescribed in each preceding Paragraph shall be set by JSCC on each applicable occasion.

(Article 78-2 Compensation for Loss with Clearing Fund of Non-Default Clearing Participants)

1 In the case where any portion of the loss\*<sup>1</sup> related to Securities Clearing Qualification, JGB Futures Clearing Qualification, Index Futures Clearing Qualification or FX Clearing Qualification which JSCC has incurred as a result of the nonperformance by a Default Clearing Participant of the settlement of Contracts for Clearing existing between JSCC and such Default Clearing Participant still remains uncompensated even after the operation of the provisions of the preceding Article, such loss shall be compensated for with the amount representing the required amount of the clearing fund for each Clearing Qualification set forth in Paragraph 1 of Article 16, deposited by each Clearing Participant other than the Default Clearing Participant\*<sup>2</sup> with JSCC as of the day of the occurrence of the relevant default\*<sup>3</sup> in accordance with the manners prescribed by JSCC.

(\*<sup>1</sup> including the loss JSCC has incurred in performing the handlings pursuant to the provisions of Article 76; the same applies hereinafter in this Article and the following Article)

(\*<sup>2</sup> hereinafter referred to as the "Clearing Participant on Default Day" in this Chapter)

(\*<sup>3</sup> including the day on which JSCC deems there is a real possibility of default; hereinafter referred to as the "Default Day" in this Chapter)

2 In the event of the immediately preceding Article, when JSCC held the auction for default

settlement, the clearing fund shall be applied to the loss remaining uncompensated as per the immediately preceding Paragraph in the order from the clearing fund deposited by the Clearing Participants on Default Day other than the successful bidder participants\*<sup>1</sup> and then those deposited by the successful bidder participants.

(\*<sup>1</sup> referring to the Clearing Participant bid in the auction for default settlement which won the bid; the same applies hereinafter)

- 3 In the case where JSCC deems it difficult to calculate the uncompensated loss as referred to in Paragraph 1 for a considerable period, JSCC may regard the amount which is provisionally estimated and calculated by JSCC as such uncompensated loss, and compensate for such amount in the manners prescribed in Paragraph 1. In such case, when such uncompensated loss is firmly determined, the difference between such firmly determined amount and the provisional amount calculated by JSCC shall be paid/received between the Clearing Participants on Default Day and JSCC.
- 4 When JSCC has made collection from the Default Clearing Participant against its claim pertaining to the loss which was compensated for pursuant to Paragraph 1, JSCC shall repay such collected amount to the Clearing Participants on Default Day by prorating it among them.

(Article 79 Special Clearing Charge)

- 1 Regarding the loss which JSCC has incurred as a result of the nonperformance by a Default Clearing Participant of the settlement of Contracts for Clearing with JSCC, in the case where any portion of such loss still remains uncompensated even after the operation of the provisions of the preceding Article, all Clearing Participants on Default Day shall pay Special Clearing Charge in accordance with the rules of JSCC. In such case, JSCC shall apply such Special Clearing Charge for compensating for such uncompensated loss.
- 2 The amount of the Special Clearing Charge set forth in the preceding Paragraph shall be, for each category of the Clearing Qualification, the amount equal to the uncompensated loss stipulated in said Paragraph prorated in accordance with the rules of JSCC among the Clearing Participants on Default Day.
- 3 If a Clearing Participant does not pay the Special Clearing Charge set forth in Paragraph 1, such Clearing Participant shall be regarded as having failed to perform the settlement of Contracts for Clearing on the Default Day with respect to such unpaid amount, and the provisions from Article 76 to this Article shall be applied accordingly.
- 4 The provisions of Paragraph 3 and Paragraph 4 of the preceding Article shall apply *mutatis mutandis* to the case where JSCC deems it difficult to calculate the amount of loss which remains uncompensated as referred to in Paragraph 1 for a considerable period. In such case, "(JSCC may) compensate for such amount in the manners prescribed in Paragraph 1" in the first sentence of Paragraph 3 of the preceding Article shall be deemed to be "(JSCC may) demand payment of the Special Clearing Charge on the day set by JSCC".

## Section 2 Cross Margining Special Clearing Charge

(Article 79-2 Cross Margining Special Clearing Charge)

1 When claims and obligations related to the Cross Margined JGB Futures Cleared Contracts between the Cross Margining Requestor and JSCC cease to exist pursuant to the provisions of Article 73-15-4, and if there remains any loss incurred by JSCC in respect of the claims and obligations which come into existence between the Cross Margining Accepting Party and JSCC pursuant to the provisions of Article 84-5 of IRS Business Rules which cannot be covered by the use of the Fourth Tier Special Clearing Charge<sup>\*1</sup>, the Cross Margining Requestor shall pay the Cross Margining Special Clearing Charge in the amount equal to such remaining loss in a manner prescribed by JSCC. In this case, JSCC will cover such loss by such Cross Margining Special Clearing Charge.

(\*1 referring to the Fourth Tier Special Clearing Charge set forth in Article 106.1 of IRS Business Rules; the same applies in Paragraph 2 below)

2 When the Cross Margining Requestor described in the immediately preceding Paragraph fails to pay the Cross Margining Special Clearing Charge set forth in the said Paragraph, the Cross Margining Requestor shall be deemed to have failed its performance of the settlement of the Clearing Contracts on the day on which it has determined that such loss cannot be covered fully by the Fourth Tier Special Clearing Charge, and the provisions of Article 76 to the preceding Article shall apply.

3 When JSCC deems it difficult to calculate the Cross Margining Special Clearing Charge set forth in Paragraph 1 for a considerable period of time, JSCC may deem the amount tentatively calculated by JSCC as an expected amount of such remaining loss and request the payment of the Cross Margining Special Clearing Charge in such amount on the date designated by JSCC. In this case, when the final amount of such remaining loss set forth in Paragraph 1 has been determined, the difference between such final amount of the remaining loss and the amount tentatively calculated by JSCC shall be settled between the Cross Margining Requestor under Paragraph 1 and JSCC.

4 When JSCC can collect its claims related to the loss recovered pursuant to the provisions of Paragraph 1 from the Cross Margining Accepting Party set forth in Paragraph 1, JSCC shall refund the amount so collected to the Cross Margining Requestor under Paragraph 1 pursuant to the provisions of IRS Business Rules.

Chapter 8 Miscellaneous Provisions

## (Article 79-3 Adjustment of Position under Security Option Contract)

- 1 In the case of a stock split in respect of the underlying security of Security Option Contract where one stock is to be split into an integral multiple of one stock; in the case of an allotment of stocks without compensation where the stock of the same class as that of the underlying security in number equal to an integral multiple of one stock of the underlying security are allotted per each stock of the underlying security; in the case of a change in the trading unit; or in other cases where JSCC deems it necessary to do so, the Position under the Security Option Contract pertaining to the securities option in respect of such underlying security shall be adjusted in accordance with the rules of JSCC.
- 2 The provisions of the preceding Paragraph shall apply *mutatis mutandis* to the underlying security\*<sup>1</sup> of Security Option Contract.

(\*<sup>1</sup> excluding stocks)

## (Article 80 Extraordinary Change of Settlement Cutoff Time)

When JSCC deems it necessary, JSCC may extraordinarily change the Settlement Cutoff Time\*<sup>1</sup> in respect of Contracts for Clearing between JSCC and a Clearing Participant. In such case, JSCC shall notify the Clearing Participant to that effect in advance.

(\*<sup>1</sup> including the cutoff time prescribed in Paragraph 1 and Paragraph 2 of Article 51)

## (Article 81 Deferment of Settlement Date Due to System Failure, etc.)

- 1 In the case where JSCC deems it impossible or difficult to carry out the settlement of Contracts for Clearing by using the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, due to an occurrence of a system failure to those systems or some other unavoidable reasons, JSCC may defer all or part of the settlement to the following day or later. In such case, JSCC shall notify Clearing Participants to that effect in advance.
- 2 In the case where JSCC deems it impossible or difficult to make the notification of an exercise of options in respect of Security Option Contract, Option Contract on JGB Futures and/or Index Option Contract due to an occurrence of a system failure to the systems set up by JSCC or other institutions which are necessary to make the notification of the exercise of those options or due to some other unavoidable reasons, JSCC may change the Exercise Period or the Exercise Date, or suspend the exercise itself with respect to all or part of those options. In such case, JSCC shall notify Clearing Participants to that effect in advance.
- 3 The matters necessary for the deferment of the settlement day, the change of the Exercise Period or the Exercise Date, and the suspension of exercise itself prescribed in the preceding two Paragraphs shall be set by JSCC on each applicable occasion.

(Article 82 Extraordinary Measures in Cases of Natural Disaster, etc.)

- 1 If circumstances lead up to the event that the settlement of Contracts for Clearing is deemed to be impossible or extraordinarily difficult due to a natural disaster, economic upheaval, a shortage of goods or other unavoidable reasons, JSCC may set new conditions of the settlement for the relevant contract through a resolution adopted at the meeting of board of directors of JSCC.
- 2 When JSCC has set the new conditions of the settlement pursuant to the preceding Paragraph, the Clearing Participants shall comply with them.
- 3 In the case of the event stipulated in Paragraph 1 and when JSCC acknowledges urgent need therefor, JSCC may set new conditions of the settlement without the resolution of board of directors' meeting.

(Article 83 Cancellation, etc. of Claims and Obligations under When-Issued Transaction)

- 1 Regarding the Contracts Subject to Clearing on the When-Issued Transaction, in the case where the conditions of the issuance of the stock are changed, or where the stock is not issued or recognized as not to be issued, by the settlement day, JSCC may take the measures regarding changing the securities eligible for settlement or the settlement day, or canceling the claims and obligations under the relevant When-Issued Transaction.
- 2 The provisions of the preceding Paragraph shall apply *mutatis mutandis* to preferred equity capital contribution securities and investment trust beneficiary securities.

(Article 83-2 Change, etc. of Securities Subject to Settlement under JGB Futures Contract)

In the case where JSCC deems it difficult to carry out the Settlement by Physical Delivery and Payment in respect of JGB Futures Contract taking into account such factors as the situation of the Positions, JSCC may take measures regarding changing the securities subject to the settlement of the Large JGB Futures Contract\*<sup>1</sup> between JSCC and the Clearing Participant or changing the Day of Settlement by Physical Delivery and Payment.

(\*<sup>1</sup>referring to the Large JGB Futures Contract set forth in of Article 73-11)

(Article 83-3 Transfer of Unsettled Contracts in Case of Corporate Divestiture or Transfer of Business)

- 1 In the case where a Clearing Participant transfers its business to another Clearing Participant, or causes another Clearing Participant to succeed to its business by way of a divestiture, and when the former Clearing Participant does not lose its Clearing Qualification simultaneously with the succession or transfer of such business, that Clearing Participant may, by obtaining JSCC's approval, transfer to such another Clearing Participant its Unsettled Contracts of Futures and Option Contracts or Exchange FX Contracts pertaining to the relevant business being succeeded to or transferred.

2 In the event stipulated in the preceding Paragraph, if the Unsettled Contracts to be transferred are pursuant to the commissions by its customers, such former Clearing Participant shall obtain the consent of the relevant customers on the transfer of the Unsettled Contracts.

3 In the event stipulated in Paragraph 1, when an Agency Clearing Participant is to take over the Non-Clearing Participant's Unsettled Contract which are pursuant to the commissions of the Brokerage for Clearing of Securities, etc., such Agency Clearing Participant shall obtain the consent of the relevant Non-Clearing Participant on the transfer of the relevant Unsettled Contracts.

(Article 83-4 Application of Excess Collateral relating to Securities and Similar Contract Clearing Business to Other Clearing Business)

JSCC may apply the excess collateral deposited by a Default Clearing Participant in relation to the Securities and Similar Contract Clearing Business<sup>\*1</sup> to the payment of any other obligations owed by such Default Clearing Participant to JSCC in accordance with the provisions of the business rules of the Other Clearing Businesses as applicable.

(\*1 referring to the Margin, initial margin, clearing fund or other collateral of which the Default Clearing Participant has the right to claim refund from JSCC in connection with the Securities and Similar Contract Clearing Business, that remains after the application to the payment of the obligations of the Default Clearing Participant in accordance with the provisions of these Business Rules<sup>\*1-1</sup>)

(\*1-1 including any rules and regulations promulgated hereunder)

(Article 84 Payment of Fees by Designated Market Operator)

Designated Market Operator shall pay JSCC the fees prescribed by JSCC's rules in accordance with such rules.

(Article 84-2 Prohibition of Transfer, Etc. of Claims)

A Clearing Participant may not transfer or commit to transfer to a third person, or furnish as collateral, any and all claims prescribed in these Business Rules<sup>\*1</sup> unless otherwise provided herein.

(\*1 including any rules and regulations promulgated hereunder; the same applies hereinafter in this Article)

(Article 85 Entrustment of Operations)

1 JSCC may entrust the administrative work relating to the Securities and Similar Contract Clearing Business specified by JSCC to the entity designated by JSCC.

2 In addition to these Business Rules, Clearing Participants shall comply with the rules in respect of the administrative work described in the preceding Paragraph which are set by

the entity designated pursuant to said Paragraph and are approved by JSCC.

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

(Article 86 Stipulation of Necessary Matters Regarding Financial Instruments Obligation Assumption Business and Related Businesses)

In addition to the matters prescribed in these Business Rules, when JSCC deems it necessary regarding the Securities and Similar Contract Clearing Business, JSCC may stipulate rules concerning required operations.

(Article 87 Incidental Business)

JSCC shall conduct the businesses incidental to the Financial Instruments Obligation Assumption Business and Related Businesses\*<sup>1</sup>.

(\*<sup>1</sup>limited only to those prescribed in Article 2)

(Article 88 Authority to Make Amendment)

Amendments to these Business Rules shall be made by resolutions adopted at the meetings of the board of directors; provided, however, that the foregoing shall not apply when the amendments are not material.

Supplementary Provisions

1 These Business Rules shall come into effect on January 14, 2003; provided, however, that the provisions of Section 1 and Section 2\*<sup>1</sup> of Chapter 1 and Article 16 shall come into effect on January 10, 2003, and the provisions of Article 66 shall come into effect on January 8, 2003.

(\*<sup>1</sup> excluding Article 10)

2 In the case where the entity applying for the Principal Clearing Qualification pursuant to the provisions of Paragraph 1 of Article 6 on January 10, 2003 has already been a trading participant or a member of a Designated Market Operator, the examination on the matters stipulated in Item 2 of Paragraph 1 of Article 7 shall not be performed; provided, however, that such entity is required not to have fallen under any of the Items of Paragraph 3 of Article 29.

3 In the case where the Clearing Participant which obtained the approval set forth in Paragraph 3 of Article 6 on January 10, 2003 is an Securities Clearing Participant of the Tokyo Stock Exchange, Inc.\*<sup>1</sup>, and when the total value of the clearing fund, which is comprised of cash and securities in lieu of cash valued at their substituting values\*<sup>2</sup>, deposited by such Clearing Participant with TSE as of such day pursuant to TSE's Clearing/Settlement Regulations is at least equal to the required amount of the clearing fund for securities contracts prescribed in Article 16, such Clearing Participant shall be regarded as having deposited the clearing fund prescribed in Paragraph 1 of Article 8 for the purpose of the provisions of said Paragraph.

(\*<sup>1</sup> hereinafter referred to as "TSE")

(\*<sup>2</sup> deducting the amount with respect to which the relevant Clearing Participant completed the procedure set by TSE to make it the clearing fund for Futures and Option Contracts prescribed in the business rules of TSE as of January 14, 2003\*<sup>2-1</sup>)

(\*<sup>2-1</sup> hereinafter referred to as the "Effective Date")

4 Among the Contracts Subject to Clearing prescribed in Paragraph 2 of Article 3 which were formed prior to the Effective Date, in respect of those which have not been settled as of the Effective Date\*<sup>1</sup>, JSCC shall assume the obligations pursuant to the provisions of Paragraph 1 of Article 46 on the Effective Date unless otherwise prescribed in the following Paragraph.

(\*<sup>1</sup> limited to those to which a Clearing Participant of JSCC is a party as of the Effective Date)

5 In the case where the Designated Market Operator was assuming the obligation under Contracts Subject to Clearing as of the day immediately preceding the Effective Date\*<sup>1</sup>, JSCC shall assume the obligations between such Designated Market Operator and the Clearing Participant\*<sup>2</sup>. In such case, the provisions of Paragraph 1 of Article 46 shall apply *mutatis mutandis* to the assumption of such obligations, and the provisions of Item 1 of

Paragraph 1 of Article 54 shall apply *mutatis mutandis* to the claims and obligations between JSCC and the Designated Market Operator pertaining to the assumption of such obligations.

(\*1 including the case where the Designated Market Operator is a party to a transaction of buying/selling the underlying stock of Share Option Transaction resulting from its exercise)

(\*2 limited to the Clearing Participants which are JSCC's Clearing Participants as of the Effective Date)

6 In the case where JSCC's Clearing Participant which was TSE's Securities Clearing Participant on the day immediately preceding the Effective Date was making the application stipulated in Item 4 of Paragraph 1 of Article 39 of TSE's Clearing/Settlement Regulations before the Effective Date, such Clearing Participant shall be regarded as having been making the application stipulated in Item (4) of Paragraph 1 of Article 53.

7 With respect to the application of the provisions of Article 40 to the case where the Contract for Commissioning Clearance prescribed in Article 39 is to be concluded on the Effective Date, the words "in advance" in Article 40 shall be deemed to be "without delay".

8 The amount of money to be paid/received between a Clearing Participant and JSCC in respect of When-Issued Transaction on the Effective Date shall be as follows in addition to the amount prescribed in Article 67:

(i) With respect to the When-Issued Transactions concluded in the securities markets operated by TSE or Sapporo Securities Exchange Securities Membership Corporation on or before January 7, 2003, the amount equivalent to the difference between the Settlement Prices on January 7 of the same year set by those market operators and the Settlement Price set by JSCC on January 8 of the same year;

(ii) With respect to the When-Issued Transactions concluded in the securities markets operated by Osaka Stock Exchange Co., Ltd., Fukuoka Stock Exchange Securities Membership Corporation or Japan Securities Dealers Association on or before January 7, 2003, the amount equivalent to the difference between their contract price and the Settlement Price set by JSCC on January 8 of the same year;

(iii) With respect to the When-Issued Transactions concluded in the securities markets operated by Nagoya Stock Exchange, Inc. on or before January 7, 2003, the amount equivalent to the difference between the Settlement Price on the day of the conclusion of the relevant trading and the Settlement Price set by JSCC on January 8 of the same year.

9 Regarding the application of the provisions in Paragraph 2 of Article 79, until March 31, 2003, the phrase in said Paragraph "the shareholder's capital<sup>\*2</sup> as of the last day of the fiscal year<sup>\*3</sup> of JSCC which immediately precedes the fiscal year in which the Default Day falls<sup>\*4</sup>" shall be deemed to be "the shareholders' capital as of the last of September, 2002"; and the phrase "the total sum of the capital, the capital reserve, and the earned surplus<sup>\*5</sup>

as of the last day of the Preceding Fiscal Year; and the total value of its own stocks<sup>\*6</sup> to be acquired which was resolved on at the regular general meeting of shareholders pertaining to the Preceding Fiscal Year” shall be deemed to be “the amount obtained by adding the undivided profit of the current fiscal year to or by subtracting the undisposed deficit of the current fiscal year from, the total amount of the capital, the capital reserve, and the earned surplus as of the last day of September, 2002”.

(\*<sup>2</sup> referring to the balance after the disposition of the surplus fund pursuant to the resolution of the regular general meeting of shareholders pertaining to the Preceding Fiscal Year)

(\*<sup>3</sup> being referred to as the “Preceding Fiscal Year” in this Paragraph)

(\*<sup>4</sup> being referred to as the “Current Fiscal Year” in this Paragraph)

(\*<sup>5</sup> referring to the balance after the disposition of the surplus fund pursuant to the resolution of the regular general meeting of shareholders pertaining to the Preceding Fiscal Year)

(\*<sup>6</sup> limited to the total value of its own stocks to be acquired pursuant to the provisions of Paragraph 3 of Article 210 of the Commercial Code)

10 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)<sup>\*1</sup> shall be treated as Convertible Bonds or corporate bonds with the stock acquisition rights that are not Convertible Bonds, respectively, and these Business Rules shall be applied to them accordingly.

(\*<sup>1</sup> hereinafter referred to as the “Law Amending Commercial Code, Etc.” in this Supplementary Provisions)

11 The certificate of subscription right, which is issued in conjunction with the corporate bonds with stock acquisition rights set forth in the immediately preceding Paragraph pursuant to Paragraph 1 of Article 341-13 of the Commercial Code as it existed prior to the amendment made under the Law Amending Commercial Code, Etc., shall be regarded as a certificate of stock acquisition rights, and these Business Rules shall be applied to it accordingly.

12 In addition to the provisions of Paragraph 2 through Paragraph 9, matters regarding the handling of the assumption of obligations as at the time these Business Rules come into effect and other necessary matters shall be set by JSCC on all such occasions.

#### Supplementary Provisions

These revised Business Rules shall come into effect on April 1, 2003.

#### Supplementary Provisions

1 These revised Business Rules shall come into effect on February 2, 2004.

2 The entity who applied for Clearing Qualification by January 16, 2004 in accordance with the rules of JSCC and obtained the approval from JSCC shall be regarded as being granted Share Option Clearing Qualification, JGB Futures Clearing Qualification or Stock Price Index Futures Clearing Qualification pursuant to the provisions of Paragraph 1 of Article 9 on the day on which these revised Business Rules come into effect\*<sup>1</sup>.

(\*<sup>1</sup> hereinafter referred to as the “Effective Date”)

3 For the approval set forth in the preceding Paragraph, JSCC shall perform the examination in conformity with the provisions of Article 7.

4 Notwithstanding the provisions of the immediately preceding Paragraph, in the case where JSCC is to grant the approval set forth in Paragraph 2 to the entity who is actually a Share Option Clearing Participant, a JGB Futures Clearing Participant or a Stock Index Futures Clearing Participant of Tokyo Stock Exchange, Inc.\*<sup>1</sup> as of the day immediately preceding the Effective Day, for Share Option Clearing Qualification, JGB Futures Clearing Qualification or Stock Price Index Futures Clearing Qualification\*<sup>2</sup>, respectively, the examination of the matters prescribed in Item 2 of Paragraph 1 of Article 7 shall not be performed; provided, however, that it is required that such entity has not fallen under any of the Items of Paragraph 3 of Article 29.

(\*<sup>1</sup> hereinafter referred to as “TSE”)

(\*<sup>2</sup> limited to Principal Clearing Qualification with respect to these qualifications)

5 The entity who obtained the approval set forth in Paragraph 2 shall deposit the clearing fund and complete other necessary procedures prescribed by JSCC by the day immediately preceding the Effective Date; provided, however, that in the case where the entity who is a Share Option Clearing Participant, JGB Futures Clearing Participant or Stock Index Futures Clearing Participant of TSE has obtained the approval for the respective Share Option Clearing Qualification, JGB Futures Clearing Qualification or Stock Price Index Futures Clearing Qualification, and when the total value of the clearing fund for Futures and Option Contract— which is comprised of cash and securities in lieu of cash valued at their substituting values, deposited with TSE pursuant to TSE’s business rules as of the day immediately preceding the Effective Date by the relevant entity who is a Share Option Clearing Participant, JGB Futures Clearing Participant or Stock Price Index Futures Clearing Participant —is at least equal to the required amount of the clearing fund for Futures and Option Contract prescribed by TSE, the relevant Share Option Clearing Participant, JGB Futures Clearing Participant or Stock Price Index Futures Clearing Participant shall be regarded as having deposited the clearing fund.

6 In the case where TSE has assumed the obligations under the Contracts Subject to Clearing prescribed in Item (3) through Item (8) of Paragraph 2 of Article 3 as of the day immediately preceding the Effective Date\*<sup>1</sup>, JSCC shall assume the obligations existing between TSE and the Clearing Participant\*<sup>2</sup> on the Effective Date. In such case, the provisions of Paragraph 1 of Article 46 shall apply *mutatis mutandis* to the assumption of

such obligations, and the provisions of Item (1) of Paragraph 1 of Article 54 shall apply *mutatis mutandis* to the claims and obligations between JSCC and TSE in respect of the relevant assumption of the obligations.

(\*<sup>1</sup> including the case where TSE is a party to the JGB Futures Contract resulting from the exercise of the option under Option Contract on JGB Futures)

(\*<sup>2</sup> limited to the Clearing Participant which became JSCC's Share Option Clearing Participant, JGB Futures Clearing Participant or Stock Price Index Futures Clearing Participant on the Effective Date)

7 With respect to the application of the provisions of Article 40 to the case where the entity who obtained the approval set forth in Paragraph 2 is to conclude the Contract for Commissioning Clearance prescribed in Article 39 on the Effective Date, the word "in advance" in said Paragraph shall be deemed to be "without delay".

8 In addition to the provisions of Paragraph 2 through the preceding Paragraph, matters regarding the handling of the assumption of obligations at the time these Business Rules come into effect and other necessary matters shall be set by JSCC on all such occasions.

#### Supplementary Provisions

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

\*The date set by JSCC is December 13, 2004.

#### Supplementary Provisions

1 These revised Business Rules shall come into effect on January 1, 2005.

2 The bankruptcy adjudicated on or after January 1, 2005 as a result of the petition filed on or before December 31, 2004 shall be regarded as a decision to commence bankruptcy procedure.

#### Supplementary Provisions

These revised Business Rules shall come into effect on June 10, 2005.

#### Supplementary Provisions

These revised Business Rules shall come into effect on November 7, 2005.

#### Supplementary Provisions

1 These revised Business Rules shall come into effect on January 10, 2006.

2 With respect to the bonds\*<sup>1</sup> which are actually listed on the designated securities market at the time when these revised Business Rules come into effect, such revised provisions shall apply to settlement in respect of which the date of settlement is on or after the day designated by JSCC as the date for JASDEC to commence handling of such bonds in its book-entry transfer business.

(\*<sup>1</sup> excluding Japanese Government Bonds, corporate bonds with stock acquisition rights, etc., and Exchangeable Corporate Bonds)

Supplementary Provisions

These revised Business Rules shall come into effect on January 30, 2006.

Supplementary Provisions

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

2 Notwithstanding the provisions of the preceding Paragraph, the provisions heretofore in force shall remain applicable to the issues designated by each Designated Market Operator until the day set by that Designated Market Operator in respect of each such issue.

Supplementary Provisions

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

2 Notwithstanding the provisions of the preceding Paragraph, with respect to the stock acquisition right for which the provisions then in force still remain applicable pursuant to the provisions of Paragraph 2 of Article 98 of the Laws Concerning the Coordination, etc. of Associated Laws in Connection with the Enforcement of the Companies Act. (Law No. 87 of 2005), the provisions heretofore in force shall remain applicable.

3 The Convertible Bond which is stipulated in Item 6 of Paragraph 2 of Article 47 of these Business Rules as it existed prior to this revision, and in respect of which the resolution for its offering was passed prior to the day on which these revised Business Rules came into effect, shall be regarded as the Convertible Bond stipulated in the same Article of the Business Rules as it exists after this revision, and the revised provisions shall apply accordingly.

4 Notwithstanding the provisions of Paragraph 1, with respect to the application of Paragraph 2 of Article 79 in the case where the Default Day falls on or before March 31, 2007, the provisions heretofore in force shall remain applicable.

Supplementary Provisions

These revised Business Rules shall come into effect on January 1, 2007.

Supplementary Provisions

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

Supplementary Provisions

These revised Business Rules shall come into effect on November 1, 2007.

Supplementary Provisions

These revised Business Rules shall come into effect on December 10, 2007.

Supplementary Provisions

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

Supplementary Provisions

These revised Business Rules shall come into effect on April 1, 2008.

Supplementary Provisions

These revised Business Rules shall come into effect on May 7, 2008.

Supplementary Provisions

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

Supplementary Provisions

These revised Business Rules shall come into effect on July 7, 2008; provided, however, that the revised provisions of Paragraph 2 of Article 16 and Paragraph 1 of Article 70 shall apply from the deposit which is deposited with JSCC on or after the day on which these revised provisions come into effect.

Supplementary Provisions

These revised Business Rules shall come into effect on August 25, 2008.

Supplementary Provisions

These revised Business Rules shall come into effect on December 26, 2008.

Supplementary Provisions

1 These revised Business Rules shall come into effect on January 1, 2009.

2 The provisions heretofore in force shall remain applicable to the settlement in respect of the stock acquisition right securities which are actually listed in the Designated Financial Instruments Market on the day on which these revised provisions come into effect.

Supplementary Provisions

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

Supplementary Provisions

1 These revised Business Rules shall come into effect on November 16, 2009.

2 The provisions heretofore in force shall remain applicable to the settlement in respect of the Contracts for Clearing which JSCC had assumed obligation until November 15, 2009.

Supplementary Provisions

These revised Business Rules shall come into effect on July 16, 2010.

Supplementary Provisions

These revised Business Rules shall come into effect on April 1, 2011.

Supplementary Provisions

These revised Business Rules shall come into effect on July 19, 2011.

Supplementary Provisions

These revised Business Rules shall come into effect on March 31, 2012.

Supplementary Provisions

These revised Business Rules shall come into effect on December 1, 2012.

Supplementary Provisions

- 1 These revised Business Rules shall come into effect on March 31, 2013.
- 2 During the period from March 31, 2013 to March 30, 2014, in applying (c) of B) of Item (2) of Paragraph 1 of Article 7, Item (5) of Paragraph 3 of Article 29 and Item (4) of Paragraph 4 of Article 29, all as amended, the words "4.5 percent" in a. of (c) of B) of Item (2) of Paragraph 1 of Article 7 and A) of Item (4) of Paragraph 4 of Article 29 shall be interpreted to mean "3.5 percent," the words "6 percent" in b. of (c) of B) of Item (2) of Paragraph 1 of Article 7 and B) of Item 4 of Paragraph 4 of Article 29 shall be interpreted to mean "4.5 percent", the words "2.25 percent" in A) of Item (5) of Paragraph 3 of Article 29 shall be interpreted to mean "1.75 percent", and the words "3 percent" in B) of Item (5) of Paragraph 3 of Article 29 shall be interpreted to mean "2.25 percent".
- 3 During the period from March 31, 2014 to March 30, 2015, in applying (c) of B) of Item (2) of Paragraph 1 of Article 7, Item (5) of Paragraph 3 of Article 29 and Item (4) of Paragraph 4 of Article 29, all as amended, the words "4.5 percent" in a. of (c) of B) of Item (2) of Paragraph 1 of Article 7 and A) of Item (4) of Paragraph 4 of Article 29 shall be interpreted to mean "4 percent," the words "6 percent" in b. of (c) of B) of Item (2) of Paragraph 1 of Article 7 and B) of Item 4 of Paragraph 4 of Article 29 shall be interpreted to mean "5.5 percent", the words "2.25 percent" in A) of Item (5) of Paragraph 3 of Article 29 shall be interpreted to mean "2 percent", and the words "3 percent" in B) of Item (5) of Paragraph 3 of Article 29 shall be interpreted to mean "2.75 percent".

Supplementary Provisions

- 1 These revised Business Rules shall come into effect on July 16, 2013.
- 2 When the entity who is a clearing participant in futures and options or an FX clearing participant of Osaka Securities Exchange Co., Ltd.\*<sup>1</sup> and who applies for Clearing Qualification by June 28, 2013 in accordance with the rules of JSCC obtains the approval from JSCC through the examination conducted by applying *mutatis mutandis* the provisions of Article 7, such entity shall be regarded as being granted Index Futures Clearing Qualification or FX Clearing Qualification pursuant to the provisions of Paragraph 1 of Article 9 on the day on which these revised Business Rules come into effect\*<sup>2</sup>. In such case, if such entity does not fall under any one of the categories set forth in Items of Paragraph 3 of Article 29, and remains to be a clearing participant in futures and options or

an FX clearing participant of OSE as of the day immediately preceding the Effective Date, the examination of the matters prescribed in Item (2) of Paragraph 1 of Article 7 shall not be performed.

(\*1 hereinafter referred to as “OSE”)

(\*2 hereinafter referred to as the “Effective Date”)

- 3 The entity who obtained the approval set forth in the preceding Paragraph in relation to the Index Futures Clearing Qualification shall deposit the clearing fund and complete other necessary procedures prescribed by JSCC by the day immediately preceding the Effective Date; provided, however, that in the case where the entity who is a clearing participant in futures and options of OSE has obtained the approval for the Index Futures Clearing Qualification, and when the total value of the clearing deposit — which is comprised of cash and securities in lieu of cash valuated at their substituting prices, — deposited by such entity with OSE pursuant to OSE’s clearing rules as of the day immediately preceding the Effective Date, plus the amount of clearing fund deposited by it with JSCC as of the day immediately preceding the Effective Date is equal to or more than the required amount of the clearing fund prescribed by JSCC, such entity shall be regarded as having deposited the clearing fund.
- 4 The entity who obtained the approval set forth in Paragraph 2 in relation to the FX Clearing Qualification shall deposit the clearing fund and complete other necessary procedures prescribed by JSCC by the day immediately preceding the Effective Date; provided, however, that in the case where the entity who is an FX clearing participant of OSE has obtained the approval for the FX Clearing Qualification, and when the total value of the clearing deposit — which is comprised of cash and securities in lieu of cash valuated at their substituting prices—, deposited by such entity with OSE pursuant to OSE’s clearing rules as of the day immediately preceding the Effective Date is equal to or more than the total sum of required amount of FX clearing deposit prescribed by OSE, such entity shall be regarded as having deposited the clearing fund.
- 5 The entity who holds Principal Clearing Qualification or Agency Clearing Qualification for Individual Option Clearing Qualification of JSCC as of the day immediately preceding the Effective Date\*1 shall be deemed to have been granted Principal Clearing Qualification or Agency Clearing Qualification, respectively, for Index Futures Clearing Qualification as of the Effective Date in accordance with the provisions of Paragraph 1 of Article 9. In such case, such entity shall deposit the clearing fund and complete other necessary procedures prescribed by JSCC by the day immediately preceding the Effective Date.  
(\*1 limited only to the entity who does not hold Index Futures Clearing Qualification)
- 6 In the case where OSE has assumed the obligations under the Contracts Subject to Clearing prescribed in Item (2), Item (5), Item (6) and Item (11) of Paragraph 2 of Article 3, all as amended, as of the day immediately preceding the Effective Date, JSCC shall assume the obligations existing between OSE and the OSE’s clearing participant\*1 on the

Effective Date. In such case, the provisions of Paragraph 1 of Article 46 shall apply *mutatis mutandis* to the assumption of such obligations, and the provisions of Item (1) of Paragraph 1 of Article 54 shall apply *mutatis mutandis* to the claims and obligations between JSCC and OSE in respect of the relevant assumption of the obligations.

(\*1 limited to those which became JSCC's Index Futures Clearing Participant or FX Clearing Participant on the Effective Date)

7 With respect to the application of the provisions of Article 40 to the case where the entity who obtained the approval set forth in Paragraph 2 is to conclude the Contract for Commissioning Clearance prescribed in Article 39 on the Effective Date, the word "in advance" in said Paragraph shall be deemed to be "without delay".

8 In addition to the provisions of Paragraph 2 through the preceding Paragraph, matters regarding the handling of the assumption of obligations at the time these revised Business Rules come into effect and other necessary matters shall be set by JSCC on all such occasions.

#### Supplementary Provisions

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

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

#### Supplementary Provisions

1 These revised Business Rules shall come into effect on March 24, 2014.

2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than March 24, 2014.

#### Supplementary Provisions

These revised Rules shall come into effect on March 31, 2014.

#### Supplementary Provisions

These revised Rules shall come into effect on October 23, 2014.

#### Supplementary Provisions

These revised Rules shall come into effect on December 1, 2014.

Supplementary Provisions

- 1 These revised Rules shall come into effect on September 24, 2015.
- 2 Notwithstanding the provisions of the immediately preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than September 24, 2015.

Supplementary Provisions

- 1 These revised Business Rules shall come into effect on October 13, 2015.
- 2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than October 13, 2015.

Supplementary Provisions

- 1 These revised Business Rules shall come into effect on January 8, 2016; provided that revisions to Article 15-3, Paragraph 4 of Article 15-4, Article 17 and Article 78-2 shall come into effect on the next day following the date on which other revisions to these Business Rules come into effect (or next business day, if such day falls on a non-business day).
- 2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than January 8, 2016.

Supplementary Provisions

1. These revised Business Rules shall come into effect on January 30, 2017.
2. Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than January 30, 2017.

Supplementary Provisions

1. These revised Business Rules shall come into effect on February 13, 2018, except for the provisions of Paragraphs 3 to 7 of Article 16 which shall come into effect on February 9, 2018.
2. Notwithstanding the provisions of the preceding Paragraph, other than the revised provisions of Paragraphs 3 to 7 of Article 16, Article 21-2, Item (2) of Paragraph 1 of Article 29, Articles 75-2 to 75-4, Paragraphs 7 to 11 of Article 76, Paragraphs 2 to 4 of Article 78-2 and Paragraph 4 of Article 79, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than February 14, 2018.

=End=

# Rules on Margins, etc. for Futures and Option Contracts



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This English translation of the Rules has been prepared solely for reference purposes and shall not have any binding force. The original Japanese text shall be definitive when construing or interpreting the meaning of any provision.

**Rules on Margins, etc. for Futures and Option Contracts**

**(In effect as of April 9, 2018)**

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Rules on Margins, etc. for Futures and Option Contracts  
Chapter 1 General Provisions

(Article 1 Purpose)

These Rules set forth necessary matters concerning the Margin relating to the Futures and Option Contracts and the handling of the Unsettled Contracts in the event of the Suspension of Obligation Assumption due to Insolvency pursuant to the provisions of Paragraph 1 of Article 73-43 of the Business Rules.

(Article 2 Definitions)

- 1 In these Rules, the term, "Futures Contract," refers to a JGB Futures Contract or an Index Futures Contract.
- 2 In these Rules, the term, "Option Contract," refers to a Security Option Contract, an Option Contract on JGB Futures or an Index Option Contract.
- 3 In these Rules, the term, "Designated Market Operator," refers to the Designated Market Operator operating the Designated Financial Instruments Market set forth in Item (2) through Item (6) of Paragraph 2 of Article 3 of the Business Rules.
- 4 In these Rules, the term, "Trading Participant," refers to a person who has the trading qualification in respect of Futures Contract or Option Contract in the Financial Instruments Market operated by the Designated Market Operator.
- 5 In these Rules, the term, "Obligations Pertaining to Futures and Option Contracts" refers to the obligations to pay money in connection with the settlement of Futures and Option Contracts, the obligations to deliver securities in connection with the Settlement by Physical delivery and Payment of Futures Contracts on JGB Futures and the settlement resulting from the exercise of options under Security Option Contracts, and other obligations to be incurred with respect to Futures and Option Contracts.
- 6 In these Rules, the word, "Broker," refers to a customer that is a Financial Instruments Business Operator or a Registered Financial Institution and commissions a Trading Participant to execute Futures and Option Contracts, where such commission results from the brokerage of commission of Futures and Option Contracts to such Trading Participant.
- 7 In these Rules, the word, "Applicant," refers to a person who has submitted to a Broker an application for brokerage of commission.
- 8 In these Rules, the word, "SPAN," refers to the margin calculation method, known as "SPAN," which was developed by the Chicago Mercantile Exchange.
- 9 In these Rules, the term, "Clearing Participant," refers to a person who has JGB Futures Clearing Qualification or Index Futures Clearing Qualification among the Clearing Participant stipulated in Paragraph 1 of Article 5 of the Business Rules.
- 10 In these Rules, the term, "Non-Clearing Participant," refers to the Index Futures Non-Clearing Participant stipulated in Paragraph 2 of Article 73-2 of the Business Rules,

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Rules on Margins, etc. for Futures and Option Contracts

the JGB Futures Non-Clearing Participant stipulated in Paragraph 2 of Article 73-6 of the said rules, the Index Futures Non-Clearing Participant stipulated in Paragraph 2 of Article 73-20 of the said rules and the Index Futures Non-Clearing Participant stipulated in Paragraph 2 of Article 73-26 of the said rules.

11 In these Rules, the term, "Designated Clearing Participant," refers to a person designated by a Non-Clearing Participant as an entity to whom the Brokerage for Clearing of Securities, etc. in relation to Futures Contracts and Option Contracts is commissioned among the Designated Clearing Participant stipulated in Paragraph 1 of Article 6 of the Business Rules.

12 In these Rules, the phrase, "Suspension of Obligation Assumption due to Insolvency" refers to the measure taken to suspend assumption of obligations pursuant to the provisions of Paragraph 1 of Article 29<sup>\*1</sup> of the Business Rules or the measure taken to suspend assumption of obligations pursuant to the provisions of Paragraph 5 of Article 76 of the Business Rules.

(\*1 limited to the suspension due to a violation of the Instructions for Improvement on Position Holding pursuant to the provisions of Article 29-3 of the Business Rules)

13 In these Rules, the phrase, "Suspension of Transactions, etc. due to Insolvency" refers to: the measure to suspend the selling/buying, etc. of securities<sup>\*1</sup> or the commission of the Brokerage for Clearing of Securities, etc.<sup>\*2</sup> taken by the Designated Market Operator; or the measure to suspend the selling/buying, etc. of securities<sup>\*3</sup> or the commission of the Brokerage for Clearing of Securities, etc. taken by the Designated Market Operator in the event of suspension of assumption of obligations pursuant to the provisions of Paragraph 1 of Article 29<sup>\*4</sup> or Paragraph 5 of Article 76 of the Business Rules.

(\*1 excluding those pursuant to the Brokerage for Clearing of Securities, etc.)

(\*2 limited to measures taken due to the Designated Market Operator's determination that a Trading Participant is actually, or has the potential of becoming, unable to make payments)

(\*3 excluding those pursuant to the Brokerage for Clearing of Securities, etc.)

(\*4 limited to the suspension due to a violation of the Instructions for Improvement on Position Holding pursuant to the provisions of Article 29-3 of the Business Rules)

14 In these Rules, the "Trading Day" refers to the trading day prescribed by the Designated Market Operator in respect of Futures and Option Contracts.

15 In these Rules, the "Foreign Government Bonds" refers to the securities listed in Item (17) of Paragraph 1 of Article 2 of the Financial Instruments and Exchange Act that have characteristics described in Item (1) of Paragraph 1 of Article 2 of the said Act.

Rules on Margins, etc. for Futures and Option Contracts  
Chapter 2 Margin

Section 1 General Clauses

(Article 3 Purpose of the Margin)

1 The purpose of the Margin is to ensure the performance of a Clearing Participant's payment or delivery Obligations Pertaining to Futures and Option Contracts owed to JSCC, a Non-Clearing Participant's payment or delivery Obligations Pertaining to Futures and Option Contracts owed to a Clearing Participant, or a customer's Obligations Pertaining to Futures and Option Contracts owed to a Trading Participant<sup>\*1</sup>, respectively, pursuant to the provisions of these Rules.

(\*1 in the case where such customer is a Broker, including an Applicant's Obligations Pertaining to Futures and Option Contracts owed to such customer)

2 In the event of the occurrence of any default concerning the obligations set forth in the preceding Paragraph, JSCC, Clearing Participants, Non-Clearing Participants and the customers which are Brokers, as applicable, may exercise their respective rights concerning the Margin and appropriate it to the relevant obligations.

(Article 4 Amount Required for the Margin for Proprietary Account of Trading Participants)

The amount required for the Margin for proprietary account shall be an amount<sup>\*1</sup> equal to the amount of the SPAN Margin Requirement for proprietary account, reduced by the total amount of the net option value for proprietary account —the terms used above shall have the meanings set forth in the following Items:

(\*1 if measures of increasing an amount required for the Margin for the proprietary account are taken pursuant to the provisions of Paragraph 1 of Article 6-2 or Paragraph 1 of Article 6-3, the relevant add-on charge shall be added)

(1) SPAN Margin Requirement for proprietary account:

The amount of margin calculated in accordance with SPAN with respect to a Trading Participant's proprietary Position relating to Futures and Option Contracts<sup>\*1</sup>.

(\*1 other than Position which becomes subject to a Cross Margining Request on the relevant Trading Day)

(2) Total amount of net option value for proprietary account:

The amount equal to the total amount of buying net option value for proprietary account, reduced by the total amount of selling net option value for proprietary account, set forth in A) or B) below:

A) The total amount of buying net option value for proprietary account shall be the total sum of the value calculated in accordance with the provisions of (a) through (c) below with respect to each issue whose buying Position for a Trading Participant's proprietary account exceeds its selling Position:

- (a) With respect to Security Option Contracts, the amount equal to the Net Buying Amount<sup>\*1</sup> for a Trading Participant's proprietary account, multiplied by the Settlement Price<sup>\*2</sup> of the relevant issue on the applicable day, and then further multiplied by the Trading Unit<sup>\*3</sup> of the underlying securities of the relevant issue;

(\*1 referring to the difference between the amount of the Long Position and the amount of the Short Position where the amount of the Long Position exceeds the amount of the Short Position; the same applies hereinafter)

(\*2 referring to the Settlement Price stipulated in Article 7; the same applies hereinafter in this Article)

(\*3 in the case where the Designated Market Operator has prescribed the ex-rights day of the selling/buying of underlying securities and where the relevant issue is the underlying securities of the Security Options subject to the Security Option Contract on or after such ex-right day, the amount equal to the Trading Unit of the underlying securities multiplied by the value prescribed by the Designated Market Operator; the same applies hereinafter)

- (b) With respect to Option Contracts on JGB Futures, the amount equal to the Net Buying Amount for a Trading Participant's proprietary account, multiplied by the Settlement Price of the relevant issue on the applicable Trading Day, and then further multiplied by 1/100 of the face value of the JGB Futures Contract resulting from the exercise of 1 unit of the option on JGB Futures; and

- (c) With respect to Index Option Contracts, the amount equal to the Net Buying Amount for a Trading Participant's proprietary account, multiplied by the Settlement Price of the relevant issue on the applicable Trading Day, and then further multiplied by the Base Trading Amount<sup>\*1</sup> of the relevant issue.

(\*1 referring to the base trading amount or trading unit prescribed by the Designated Market Operator as the amount by which the difference between the exercise price and the actual index is to be multiplied for the purpose of computing the amount of money to be paid/received upon the exercise of an option relating to the Index Option Contract; the same applies hereinafter)

- B) The total amount of selling net option value for proprietary account shall be the total sum of the value calculated in accordance with the provisions of (a) through (c) below with respect to each issue whose selling Position for a Trading Participant's proprietary account exceeds its buying Position:

- (a) With respect to Security Option Contracts, the amount equal to the Net Selling Amount<sup>\*1</sup> for a Trading Participant's proprietary account, multiplied by the Settlement Price of the relevant issue on the applicable day, and then further multiplied by the Trading Unit of the underlying securities of the relevant issue;

(\*1 referring to the difference between the amount of the Short Position and the amount of the Long Position where the amount of the Short Position exceeds the

amount of the Long Position; the same applies hereinafter)

- (b) With respect to Option Contracts on JGB Futures, the amount equal to the Net Selling Amount for a Trading Participant's proprietary account, multiplied by the Settlement Price of the relevant issue on the applicable Trading Day, and then further multiplied by 1/100 of the face value of the JGB Futures Contract resulting from the exercise of 1 unit of the option on JGB Futures; and
- (c) With respect to Index Option Contracts, the amount equal to the Net Selling Amount for a Trading Participant's proprietary account, multiplied by the Settlement Price of the relevant issue on the applicable Trading Day, and then further multiplied by the Base Trading Amount of the relevant issue.

(Article 5 Amount Required for Customer's Margin)

1 Except for the case set forth in the following Paragraph, the provisions of the preceding Article shall apply *mutatis mutandis* to the amount required for the customer\*<sup>1</sup>'s Margin. In such case, the phrase, "amount required for the Margin for proprietary account shall be," shall be deemed to be "amount required for the customer's Margin shall be"; the phrase, "SPAN Margin Requirement for proprietary account," shall be deemed to be "customer's SPAN Margin Requirement"; the phrase, "total amount of net option value for proprietary account," shall be deemed to be "total amount of the customer's net option value"; the phrase "Paragraph 1 of Article 6-2 and Paragraph 1 of Article 6-3," shall be deemed to be "Paragraph 2 of Article 6-2"; the phrase, "for a Trading Participant's proprietary account" shall be deemed to be "as commissioned by the applicable customer"; the phrase, "total amount of buying net option value for proprietary account" shall be deemed to be "total amount of the customer's buying net option value"; and the phrase, "total amount of selling net option value for proprietary account," shall be deemed to be "total amount of the customer's selling net option value.

(\*<sup>1</sup> referring to an applicant customer when a customer is an agency firm; the same applies hereinafter)

2 The provisions of the preceding Article shall apply *mutatis mutandis* to the amount required for the Margin applicable to the voluntary breakdown unit of a customer\*<sup>1</sup>, if applicable, In such case, the phrase, "amount required for the Margin for proprietary account" shall be deemed to be "amount required for the Margin for Voluntary Breakdown Unit"; the phrase, "SPAN Margin Requirement for proprietary account," shall be deemed to be "SPAN Margin Requirement for Voluntary Breakdown Unit"; the phrase, "total amount of net option value for proprietary account," shall be deemed to be "total amount of the net option value for Voluntary Breakdown Unit"; the phrase "Paragraph 1 of Article 6-2 and Paragraph 1 of Article 6-3," shall be deemed to be "Paragraph 3 of Article 6-2"; the phrase "for a Trading Participant's proprietary account" shall be deemed to be "for Voluntary Breakdown Unit as commissioned by the customer"; the phrase "total amount of buying net option value for

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Rules on Margins, etc. for Futures and Option Contracts proprietary account” shall be deemed to be “total amount of the buying net option value for Voluntary Breakdown Unit”; and the phrase, “total amount of selling net option value for proprietary account,” shall be deemed to be “total amount of the selling net option value for Voluntary Breakdown Unit.”

(\*<sup>1</sup> hereinafter referred to as “Voluntary Breakdown Unit”)

(Article 5-2 Amount Required for Margin for Account)

1 JSCC will calculate the amount required for Margin for accounts set forth in Article 46-3 and Article 46-4 of the Business Rules by each of the below-listed accounts by the methods set forth below:

(1) Account set forth in Item (1) of Article 46-3 and Item (1) of Article 46-4 of the Business Rules:

Amount required for Margin calculated pursuant to Article 4;

(2) Account set forth in Item (2) a. and Item (3) a. of Article 46-3 and Item (2) a. of Article 46-4 of the Business Rules:

The amount required for Margin calculated, in respect of information of customer notified pursuant to the provisions of Article 25, pursuant to the provisions of Paragraph 1 of the preceding Article, and the amount required for Margin calculated, in respect of information of Voluntary Breakdown Unit notified pursuant to the provisions of Article 25, pursuant to the provisions of Paragraph 2 of the preceding Article, aggregated by each of the relevant account:

(3) Account set forth in Article 46-3 and Article 46-4 of the Business Rules other than those listed in the preceding two Items:

Amount required for Margin calculated, in respect of the customer in the relevant account, pursuant to the provisions of Paragraph 1 of the preceding Article, or the amount required for Margin calculated, in respect of Voluntary Breakdown Unit under the relevant account, pursuant to the provisions of Paragraph 2 of the immediately preceding Article.

2 Notwithstanding the provisions of Item (2) of the preceding Paragraph, the amount required for Margin in respect of the account set forth in Item (2) a. and Item (3) a. of Article 46-3 and Item (2) a. of Article 46-4 of the Business Rules shall be determined by JSCC if the Clearing Participant fails to submit notification set forth in Article 25 or JSCC considers that submission of the notification is impossible or difficult.

(Article 6 SPAN Parameters)

The parameters and other matters which are necessary for computing the Margin by SPAN shall be prescribed by JSCC.

(Article 6-2 Measures of Increasing Amount Required for Margin according to Risk Amount)

## Reference Translation

### Rules on Margins, etc. for Futures and Option Contracts

- 1 When a value prescribed by JSCC as risk amount assumed to be owed in the Position for proprietary account of a Trading Participant related to Futures and Option Contracts exceeds the threshold for judgment prescribed by JSCC, JSCC may increase an amount required for Margin for the proprietary account of the relevant Trading Participant.
- 2 The provisions of the preceding Paragraph shall apply *mutatis mutandis* to the customer's Margin. In such case, the phrase, "for proprietary account" shall be deemed to be "as commissioned by a customer"; the phrase "an amount required for Margin for the proprietary account" shall be deemed to be "an amount required for customer's Margin."
- 3 Notwithstanding the provisions of the preceding Paragraph, the provisions of Paragraph 1 shall apply *mutatis mutandis* to the amount required for Margin for Voluntary Breakdown Unit. In such case, the phrase, "for proprietary account" shall be deemed to be "for Voluntary Breakdown Unit as commissioned by a customer"; the phrase "an amount required for Margin for the proprietary account" shall be deemed to be "an amount required for Margin for Voluntary Breakdown Unit."
- 4 The risk amount set forth in preceding three Paragraphs shall be calculated every Trading Day, and JSCC will make judgment on whether or not to increase an amount required for the Margin based on the results of such calculation of the risk amount.

### (Article 6-3 Increase of Amount Required for Margin according to Amount Equivalent to Risk Amount Exceeding Collateral)

- 1 When the amount equivalent to the risk amount exceeding collateral<sup>\*1</sup> considered to be owed by a Clearing Participant exceeds the requirement increase judgment threshold<sup>\*2</sup>, JSCC may increase the amount required for Margin for the proprietary account of the Clearing Participant in a manner prescribed by JSCC.  
(\*<sup>1</sup> referring to the amount prescribed by JSCC in its rules; the same applies hereinafter)  
(\*<sup>2</sup> referring to the amount prescribed by JSCC in its rules)
- 2 The amount equivalent to the risk amount exceeding collateral set forth in the preceding Paragraph shall be calculated on each Trading Day, and JSCC will make judgment on whether or not to increase the amount required for Margin based on the result of calculation of the amount equivalent to the risk amount exceeding collateral.
- 3 When JSCC increased the amount required for Margin for the proprietary account of the Clearing Participant set forth in Paragraph 1, if the amount of Margin for the proprietary account deposited by the Clearing Participant with JSCC falls below the amount required for Margin for the proprietary account so increased, JSCC shall promptly notify such effect to the relevant Clearing Participant.
- 4 The Clearing Participant received the notification set forth in the preceding Paragraph must deposit the amount at least equal to such shortfall as the Margin for the proprietary account by 2:00 P.M. on the day it received the said notification. In such case, the Clearing Participant may deposit securities in lieu of cash.

(Article 7 Settlement Price Relating to Option Contracts)

On each Trading Day\*<sup>1</sup>, in accordance with the rules prescribed by JSCC, JSCC shall set the Settlement Price of each issue involved in Option Contracts as of each Trading Day from the initial trading day of each relevant issue prescribed by the Designated Market Operator through the day immediately preceding the Exercise Date.

(\*<sup>1</sup> in the case of a Security Option Contract, every day)

(\*<sup>2</sup> in the case of an Option Contract on JGB Futures, through the expiration date of the Exercise Period)

(Article 7-2 Type of Currency)

Margin, Customer Margin and Brokerage Margin may only be deposited in any of the currencies designated by JSCC.

(Article 8 Securities Deposited in lieu of Cash)

1 Matters concerning the securities to be deposited in lieu of cash as the Margin, the Customer Margin or Brokerage Margin shall be prescribed in the *Appendix 1*.

2 Notwithstanding the provisions of the preceding Paragraph, when a Clearing Participant utilizes the foreign book-entry transfer institution\*<sup>1</sup> designated by JSCC for the deposit of such securities, it shall be the value determined pursuant to the provisions of the contract among the relevant Clearing Participant, JSCC and the relevant foreign book-entry transfer institution.

(\*<sup>1</sup> referring to a person engaging in the book-entry transfer business or business of custody or book-entry transfer of bonds in a foreign country in accordance with the laws and regulations of a foreign country)

3 In addition to the provisions of the preceding two Paragraphs, matters concerning the securities to be deposited in lieu of cash as the Margin, the Customer Margin or Brokerage Margin shall be prescribed by JSCC.

Section 2 Margin Pertaining to Clearing Participants

(Article 9 Deposit of the Margin for Proprietary Account)

Upon the formation of selling/buying Futures Contracts or selling Option Contracts for proprietary account, a Clearing Participant shall deposit with JSCC, in accordance with the rules prescribed by JSCC, the Margin in an amount not less than the amount required for the Margin for proprietary account prescribed in Article 4. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(Article 10 Deposit of the Margin for Customers' Account and the Margin Pertaining to the

Brokerage for Clearing of Securities, etc.)

- 1 Upon the formation of selling/buying Futures Contracts or selling Option Contracts pursuant to the commissions by customers or the commissions of the Brokerage for Clearing of Securities, etc. by Non-Clearing Participant, a Clearing Participant shall deposit with JSCC the Margin in an amount not less than the amount required for the Margin for customers' account and the Margin pertaining to the Brokerage for Clearing of Securities, etc. stipulated in the provisions of Paragraph 2 of Article 24-2.
- 2 When the amount required for Margin for the proprietary account of a Non-Clearing Participant, for a customer or for Voluntary Breakdown Unit has been increased pursuant to the provisions of Article 6-2, a Clearing Participant may agree with the customer or the Non-Clearing Participant caused such increase that the deposit is made with the Clearing Participant's own fund.
- 3 When the Clearing Participant reached an agreement with the customer or the Non-Clearing Participant pursuant to the provisions of the preceding Paragraph, the Clearing Participant may deposit with JSCC the amount which constitutes a portion of the increase as prescribed by JSCC with the Clearing Participant's own fund as the Margin for the proprietary account of the Clearing Participant in a manner prescribed by JSCC. In such case, securities may be deposited in lieu of cash for such Margin.

(Article 11 Deposit of the Margin for Customers' Account)

- 1 A Clearing Participant shall deposit with JSCC, on behalf of the relevant customer, the entire amount of the Margin which is provided by the customer in accordance, with the rules prescribed by JSCC.
- 2 Notwithstanding the provisions of the preceding Paragraph, a Clearing Participant may deposit with JSCC as the Margin its own fund in an amount not less than an amount equal to the sum of the amount of money<sup>\*1</sup> and the Marked to Market Value<sup>\*2</sup> of the securities, which have been provided by the relevant customer as the Margin, in accordance with the rules prescribed by JSCC, during the four-day period commencing on the day on which the customer provides the Margin<sup>\*3</sup>. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(\*1 when money is deposited in a foreign currency, referring to the amount appraised by converting such amount to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of the relevant currency in the Tokyo foreign exchange market on the day which is two days before the day on which the Margin is deposited<sup>\*1-1</sup>; the same applies to the following Paragraph, and Paragraphs 2 and 3 of Article 13)

(\*1-1 if such day falls on a Non-business Day, the day shall be the immediately preceding business day; the same applies hereinafter)

(\*2 referring to the value which is evaluated based on the market price<sup>\*2-1</sup> on the day which is two days before the day on which the Margin is deposited<sup>\*2-2</sup>; the same applies

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(\*<sup>2-1</sup> referring to the market price stipulated in Paragraph 2 of the *Appendix 1*; the same applies hereinafter)

(\*<sup>2-2</sup> in the case where the applicable securities are the Foreign Government Bonds, an amount equal to their market price, converted to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of the currency used for appraisal of each Foreign Government Bonds in the Tokyo foreign exchange market on the day which is two days before the day on which the Margin is deposited)

(\*<sup>3</sup> excluding Non-business Days; the same applies hereinafter when counting the number of days)

3 In the case where a customer deposits the Customer Margin, a Clearing Participant shall deposit with JSCC as the Margin its own fund in an amount not less than an amount equal to the sum of the amount of money and the Marked to Market Value of the securities, which have been deposited as the Customer Margin by the relevant customer, in accordance with the rules prescribed by JSCC. In such event, securities may be deposited in lieu of cash as the relevant Margin.

4 When any of the preceding three Paragraphs applies, if the sum of the amount of money<sup>\*1</sup> and the value of the securities valued based on their substituting prices<sup>\*2</sup>, which have been deposited with or provided to the Clearing Participant by a customer as the Margin or the Customer Margin, is less than the amount required for the Margin<sup>\*3</sup> for the relevant customer, the Clearing Participant shall deposit with JSCC as the Margin its own fund in an amount not less than an amount equal to such amount required for Margin, deducting the value of the Margin and/or the Customer Margin deposited or provided by such customer, in accordance with the rules prescribed by JSCC. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(\*<sup>1</sup> when such money is denominated in a foreign currency, the amount appraised by converting such amount to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of the relevant currency in the Tokyo foreign exchange market on the day which is two days before the day on which the Margin is deposited and multiplied by a certain rate determined by JSCC ; the same applies to Paragraph 4 of Article 13)

(\*<sup>2</sup> referring to the amount equal to the market price on the day which is two days before the day on which the Margin is deposited, multiplied by the rate set forth in Paragraph 2 of the *Appendix 1*<sup>\*2-1</sup>; the same applies hereinafter in Paragraph 4 of Article 13)

(\*<sup>2-1</sup> in the case where the applicable securities are the Foreign Government Bonds, an amount equal to their market price, multiplied by the rate set forth in Paragraph 2 of the *Appendix 1*, and then converted to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of the currency used for appraisal of each Foreign Government Bonds in the Tokyo foreign exchange market on the day which is two

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days before the day on which the Margin is deposited)

(\*<sup>3</sup> referring to the amount required for the customer's Margin to which the provisions set forth in Article 4 is applied *mutatis mutandis* pursuant Article 5 after the relevant changes are made; the same applies hereinafter)

(Article 12 Special Provisions Concerning Deposit of the Margin Pertaining to Brokers)

Notwithstanding the provisions of Paragraph 1 of the preceding Article, in the case where a customer provides the Margin to a Clearing Participant on behalf of an Applicant, such Clearing Participant, on behalf of the relevant Applicant, shall deposit the entire amount thereof with JSCC.

(Article 13 Deposit of the Margin Pertaining to the Brokerage for Clearing of Securities, etc.)

1 A Clearing Participant shall deposit with JSCC the entire amount of the Margin provided by a Non-Clearing Participant, on behalf of the relevant Non-Clearing Participant or of a customer of the relevant Non-Clearing Participant, in accordance with the rules prescribed by JSCC.

2 Notwithstanding the provisions of the preceding Paragraph, until the day\*<sup>1</sup> immediately following the day on which a Non-Clearing Participant has provided the Margin for proprietary account, a Clearing Participant may deposit with JSCC as the Margin its own fund in an amount not less than an amount equal to the sum of the amount of money and the Marked to Market Value of the securities, which have been provided by the relevant Non-Clearing Participant as the Margin, in accordance with the rules prescribed by JSCC. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(\*<sup>1</sup> if such day falls on a Non-business Day, the day shall be the immediately following business day; the same applies hereinafter)

3 In the case where a Non-Clearing Participant deposits the Margin of the Non-Clearing Participant\*<sup>1</sup>, a Clearing Participant shall deposit with JSCC as the Margin its own fund in an amount not less than an amount equal to the sum of the amount of money and the Marked to Market Value of the securities, which have been deposited as the Margin of the Non-Clearing Participant by the relevant Non-Clearing Participant in accordance with the rules prescribed by JSCC. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(\*<sup>1</sup> referring to the Margin stipulated by the Designated Market Operator as the margin of a non-clearing participant; the same applies hereinafter)

4 When any of the preceding three Paragraphs applies, if the sum of the amount of money and the value of the securities valued based on their substituting prices, which have been provided to or deposited with the Clearing Participant by a Non-Clearing Participant as the Margin or Margin of the Non-Clearing Participant is less than the amount which such Non-Clearing Participant reported as the amount required for the Margin for the relevant

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Non-Clearing Participant, in accordance with the rules prescribed by the Designated Market Operator, the Clearing Participant shall deposit with JSCC as the Margin its own fund in an amount not less than an amount equal to such required amount, deducting the value of the Margin and/or the Margin of the Non-Clearing Participant provided or deposited by such Non-Clearing Participant in accordance with the rules prescribed by JSCC. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(Article 14 Special Provisions Concerning Deposit of the Margin Pertaining to the Brokerage for Clearing of Securities, etc., which Constitutes the Margin Pertaining to Brokers)

Notwithstanding the provisions of Paragraph 1 of the preceding Article, in the case where a Non-Clearing Participant provides the Margin to a Clearing Participant on behalf of an Applicant, such Clearing Participant, on behalf of the relevant Applicant, shall deposit the entire amount thereof with JSCC.

(Article 15 Cutoff Time for Depositing the Margin)

The deposit of the Margin pursuant to the provisions of Article 9 through the preceding Article shall be completed by 11:00 A.M. on the day immediately following the day on which the Trading Day<sup>\*1</sup> on which a selling/buying Futures Contract or a selling Option Contract is formed ends.

(\*<sup>1</sup> in the case of a Security Option Contract, the day on which a selling Option Contract is formed)

(Article 16 Maintenance of the Margin for Proprietary Account)

In the case where the sum of the amount of money<sup>\*1</sup> and the value of the securities valued based on their substituting price<sup>\*2</sup>, which have been deposited with JSCC by a Clearing Participant as the Margin for proprietary account, is less than the amount required for the Margin for proprietary account, such Clearing Participant shall additionally deposit with JSCC as the Margin for proprietary account an amount not less than the amount of such shortfall, in accordance with the rules prescribed by JSCC, at or before 11:00 A.M. on the day immediately following the day on which such shortfall occurs. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(\*<sup>1</sup> when such money is denominated in a foreign currency, the amount appraised by converting such amount to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of the relevant currency in the Tokyo foreign exchange market on the day which is the day before the date of calculation<sup>\*1-1</sup> and multiplied by a certain rate determined by JSCC; the same applies to the following Article, Paragraph 2 of Article 18 and Paragraph 3 of Article 19)

(\*<sup>1-1</sup> if such day falls on a Non-business Day, the day shall be the immediately preceding business day; the same applies hereinafter)

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(\*<sup>2</sup> referring to the amount equal to the market price on the day immediately preceding the day on which the calculation is made, multiplied by the rate set forth in Paragraph 2 of the *Appendix 1*<sup>\*2-1</sup>; the same applies hereinafter in the following Article, Paragraph 2 of Article 18 and Paragraph 3 of Article 19)

(\*<sup>2-1</sup> in the case where the applicable securities are the Foreign Government Bonds, an amount equal to their market price, multiplied by the rate set forth in Paragraph 2 of the *Appendix 1*, and then converted to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of the currency used for appraisal of each Foreign Government Bonds in the Tokyo foreign exchange market on the day immediately preceding the day on which the calculation is made)

(Article 17 Maintenance of the Margin for Customers' Account and the Margin Pertaining to the Brokerage for Clearing of Securities, etc.)

In the case where the sum of the amount of money and the value of the securities valued based on their substituting prices, which have been deposited with JSCC as the Margin for customers' account and the Margin pertaining to the Brokerage for Clearing of Securities, etc., is less than the amount required for the Margin for customers' account and the Margin pertaining to the Brokerage for Clearing of Securities, etc., which is set forth in Paragraph 2 of Article 24-2<sup>\*1</sup>, such Clearing Participant shall additionally deposit with JSCC as the Margin for customers' account and the Margin pertaining to the Brokerage for Clearing of Securities, etc. an amount not less than the amount of such shortfall, in accordance with the rules prescribed by JSCC, by 11:00 A.M. on the day immediately following the date on which such shortfall occurs. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(\*<sup>1</sup> if the measures of increasing the amount required for the Margin for customers' account and the Margin pertaining to the Brokerage for Clearing of Securities, etc. have been taken pursuant to the provisions of Paragraph 2 or 3 of Article 6-2, the relevant add-on charge shall be added)

(Article 18 Maintenance of the Margin for Customers' Account)

1 In the case where the sum of the amount of money<sup>\*1</sup> and the Marked to Market Value<sup>\*2</sup> of the securities, which have been deposited with JSCC by a Clearing Participant as the Margin pertaining to a customer pursuant to the provisions of Paragraph 1 through Paragraph 3 of Article 11 or Article 12 is less than the sum of the amount of money and the Marked to Market Value of the securities, which have been provided to or deposited with the Clearing Participant by the relevant customer as the Margin or Customer Margin, such Clearing Participant shall additionally deposit with JSCC as the Margin for the customer's account an amount not less than the amount of such shortfall, in accordance with the provisions of Paragraph 1 through Paragraph 3 of Article 11 or Article 12, by 11:00 A.M. on the day immediately following the day on which such shortfall occurs.

(\*<sup>1</sup> when such money is denominated in a foreign currency, the amount appraised by converting such amount to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of the relevant currency in the Tokyo foreign exchange market on the day which is the day before the date of calculation; the same applies in this Paragraph, to Paragraphs 2 and 3 of Article 13 to apply *mutatis mutandis* under Paragraph 1 of the following Article, Paragraph 2 of the following Article, Article 24 and Article 30)

(\*<sup>2</sup> referring to the amount which is valued based on the market price on the day immediately preceding the day on which the calculation is made\*<sup>2-1</sup>; the same applies hereinafter in this Paragraph, Paragraph 2 and Paragraph 3 of Article 13 which are applied *mutatis mutandis* under Paragraph 1 of the immediately following Article, Paragraph 2 of the following Article and Article 24)

(\*<sup>2-1</sup> in the case where the applicable securities are the Foreign Government Bonds, an amount equal to their market price, converted to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of the currency used for appraisal of each Foreign Government Bonds in the Tokyo foreign exchange market on the day immediately preceding the day on which the calculation is made)

2 In the case where the sum of the amount of money and the value of the securities valued based on their substituting prices, which have been deposited or provided by a customer as the Margin or Customer Margin, is less than the amount required for the Margin for the relevant customer's account, the Clearing Participant shall additionally deposit with JSCC, as the Margin for the customer's account, an amount not less than the amount of such shortfall, in accordance with the provisions of Paragraph 4 of Article 11, by 11:00 A.M. on the day immediately following the day on which such shortfall occurs.

(Article 19 Maintenance of the Margin Pertaining to the Brokerage for Clearing of Securities, etc.)

1 In the case where a shortfall occurs with respect to the Margin to be provided to a Clearing Participant by a Non-Clearing Participant pursuant to the rules prescribed by the Designated Market Operator, and where the relevant Non-Clearing Participant additionally provides the Margin in an amount not less than the amount of such shortfall, such Clearing Participant shall additionally deposit the entire amount of such Margin with JSCC in accordance with the provisions of Paragraph 1 through Paragraph 3 of Article 13 or Article 14 by 11:00 A.M. on the day immediately following the day on which such shortfall occurs.

2 In the case where the sum of the amount of money and the Marked to Market Value of the securities deposited with JSCC by a Clearing Participant as the Margin pertaining to a Non-Clearing Participant pursuant to the provisions of Paragraph 2 of Article 13\*<sup>1</sup> and Paragraph 3 of Article 13\*<sup>2</sup> is less than the sum of the amount of money and the Marked to Market Value of the securities, which have been provided to or deposited with the Clearing Participant by the relevant Non-Clearing Participant as the Margin for proprietary account or

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the Margin of the Non-Clearing Participant, such Clearing Participant shall additionally deposit with JSCC as the Margin for the Non-Clearing Participant's proprietary account or the Margin of the Non-Clearing Participant's customer's account an amount not less than the amount of such shortfall, in accordance with the provisions of Paragraph 2 or Paragraph 3 of Article 13 which are applied *mutatis mutandis* under the provisions of the preceding Paragraph, by 11:00 A.M. on the day immediately following the day on which such shortfall occurs.

(\*<sup>1</sup> including the case where such provisions apply *mutatis mutandis* pursuant to the provisions of the preceding Paragraph)

(\*<sup>2</sup> including the case where such provisions apply *mutatis mutandis* pursuant to the provisions of the preceding Paragraph)

3 In the case where the sum of the amount of money and the value of the securities valued based on their substituting prices, which have been provided or deposited by a Non-Clearing Participant as the Margin or Margin of the Non-Clearing Participant, is less than the amount which such Non-Clearing Participant reported as the amount required for the Margin for the relevant Non-Clearing Participant in accordance with the rules prescribed by the Designated Market Operator, such Clearing Participant shall additionally deposit with JSCC as the Margin an amount not less than the amount of such shortfall, in accordance with the provisions of Paragraph 4 of Article 13, by 11:00 A.M. on the day immediately following the day on which such shortfall occurs.

(Article 20 Classification and Management Method Concerning the Margin)

1 The deposit of the Margin prescribed in Article 9 through Article 14 and Article 16 through the preceding Article shall be made based on the classification of the Margin set forth in the Items below:

(1) The Margin deposited with JSCC by a Clearing Participant in connection with Futures and Option Contracts for its proprietary account<sup>\*1\*2</sup>;

(\*<sup>1</sup> hereinafter referred to as the "Clearing Participant's Proprietary Margin")

(\*<sup>2</sup> other than Margin set forth in the following Item)

(2) The portion of the Clearing Participant's Proprietary Margin that is deposited for Futures and Option Contracts as commissioned by a customer or as a commission of Brokerage for Clearing of Securities, etc. of a Non-Clearing Participant pursuant to the provisions of Paragraph 3 of Article 10;

(3) The portion of the Margin deposited with JSCC by a Clearing Participant in connection with Futures and Option Contracts pursuant to the commission by a customer<sup>\*1</sup>, which is provided as the Margin to the relevant Clearing Participant by the customer<sup>\*2</sup>;

(\*<sup>1</sup> hereinafter referred to as the "Clearing Participant's Commissioned Margin")

(\*<sup>2</sup> excluding the Margin set forth in the immediately following Item; hereinafter referred to as the "Clearing Participant's Commissioned Margin (Direct Deposit)")

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- (4) Where a Brokerage Margin is deposited with a customer by an Applicant, the portion of the Clearing Participant's Commissioned Margin which is provided to a Clearing Participant by the customer as the Margin equivalent to the relevant Brokerage Margin\*<sup>1</sup>; (\*<sup>1</sup> hereinafter referred to as the "Clearing Participant's Commissioned Margin (Replaced by Broker)")
- (5) The portion of the Clearing Participant's Commissioned Margin which is not described in the preceding two Paragraphs\*<sup>1</sup>; (\*<sup>1</sup> hereinafter referred to as the "Clearing Participant's Commissioned Margin (Replaced)")
- (6) The portion of the Margin deposited with JSCC by a Designated Clearing Participant in connection with Futures and Option Contracts pertaining to a Non-Clearing Participant's proprietary account\*<sup>1</sup>, which is provided as the Margin by the relevant Non-Clearing Participant to the relevant Designated Clearing Participant\*<sup>2</sup>; (\*<sup>1</sup> hereinafter referred to as the "Non-Clearing Participant's Proprietary Margin") (\*<sup>2</sup> hereinafter referred to as the "Non-Clearing Participant's Proprietary Margin (Direct Deposit)")
- (7) The portion of the Non-Clearing Participant's Proprietary Margin which is not described in the immediately preceding Item\*<sup>1</sup>; (\*<sup>1</sup> hereinafter referred to as the "Non-Clearing Participant's Proprietary Margin (Replaced)")
- (8) The portion of the Margin deposited with JSCC by a Designated Clearing Participant in connection with Futures and Option Contracts pursuant to the commission by a Non-Clearing Participant's customer\*<sup>1</sup>, which is provided as the Margin by the relevant customer to the relevant Non-Clearing Participant\*<sup>2</sup>; (\*<sup>1</sup> hereinafter referred to as the "Non-Clearing Participant's Commissioned Margin") (\*<sup>2</sup> excluding the Margin set forth in the immediately following Item; hereinafter referred to as the "Non-Clearing Participant's Commissioned Margin (Direct Deposit)")
- (9) Where a Brokerage Margin is deposited with a customer by an Applicant, the portion of the Non-Clearing Participant's Commissioned Margin, which is provided by such customer to the Non-Clearing Participant as the Margin equivalent to such Brokerage Margin\*<sup>1</sup>; and (\*<sup>1</sup> hereinafter referred to as the "Non-Clearing Participant's Commissioned Margin (Replaced by Broker)")
- (10) The portion of the Non-Clearing Participant's Commissioned Margin which is not described in the preceding two Paragraphs\*<sup>1</sup>. (\*<sup>1</sup> hereinafter referred to as the "Non-Clearing Participant's Commissioned Margin (Replaced)")
- 2 The Margin deposited with JSCC pursuant to the provisions of Article 9 through Article 14 and Article 16 through the preceding Article shall be managed by JSCC in accordance with

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the classification described in the Items under the preceding Paragraph.

(Article 20-2 Deposit of Intraday Margin)

1 If the sum of the amount of money<sup>\*1</sup> and the value of the securities evaluated based on their substituting prices<sup>\*2</sup>, which have been deposited with JSCC by a Clearing Participant as the Margin for proprietary account, is less than the amount required for the Intraday Margin stipulated in the immediately following Article, such Clearing Participant shall deposit with JSCC as the Margin for proprietary account an amount not less than the amount equal to such shortfall by 2 P.M. on the applicable day. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(<sup>\*1</sup> when such money is denominated in a foreign currency, the amount appraised by converting such amount to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of the relevant currency in the Tokyo foreign exchange market on the day which is two days before the date of deposit of the Margin<sup>\*1-1</sup> and multiplied by a certain rate determined by JSCC; the same applies to Article 21)

(<sup>\*2</sup> referring to the amount equal to the market price on the day which is two days before the date of deposit of the Margin, multiplied by the rate set forth in Paragraph 2 of the *Appendix 1*<sup>\*2-1</sup>)

(<sup>\*2-1</sup> in the case where the applicable securities are the Foreign Government Bonds, an amount equal to their market price, multiplied by the rate set forth in Paragraph 2 of the *Appendix 1*, and then converted to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of the currency used for appraisal of each Foreign Government Bonds in the Tokyo foreign exchange market on the day which is the day before the date of calculation of the value obtained by multiplying the market value by the rate specified in Paragraph 2 of *Appendix 1*; the same applies to Article 21)

2 In the case where JSCC causes the Margin to be deposited pursuant to the provisions of the preceding Paragraph, JSCC shall provide the Clearing Participant with notice to that effect promptly.

3 Notwithstanding the provisions of Paragraph 1, if the amount obtained, in respect of a Clearing Participant, by deducting the amount required for Margin for the Clearing Participant's proprietary account applied at the time of the calculation of the amount required for Intraday Margin from the amount required for Intraday Margin is not more than 10 million yen, such Clearing Participant has no obligation of additional deposit of the Clearing Participant's Proprietary Margin.

4 The provisions of Paragraph 2 of the preceding Article shall apply *mutatis mutandis* to the Margin set forth in Paragraph 1.

(Article 20-3 Amount required for Intraday Margin)

1 The amount required for Intraday Margin shall be the Recalculated Intraday Risk Amount,

Rules on Margins, etc. for Futures and Option Contracts adding the amount of the Intraday Value Equivalent to Differences Pertaining to Futures Contracts and the amount of the Intraday Value Equivalent to Option Contract Price if such amounts are to be paid, and deducting the foregoing amounts if such amounts are to be received, and then adding the sum of the Risk Amount Exceeding Collateral for each account set forth in Article 46-3 and Article 46-4 of the Business Rules\*<sup>1</sup>. In such event, the terms used above shall have the meanings set forth in the following Items:

(\*<sup>1</sup> other than account set forth in Item (1) of Paragraph 1 of Article 46-3 of the Business Rules; the same applies in this Article, to Article 22, Article 23-2, Article 23-3 and Article 24-2)

(1) Recalculated Intraday Risk Amount

An amount equal to the amount required for Margin for proprietary account which is calculated pursuant to the provisions of Article 4, after the following changes are made to the provisions of Article 4: the phrase, "Trading Participant's proprietary Position relating to Futures and Option Contracts" is deemed to be "a Trading Participant's proprietary Position at the end of the Morning Session on the day on which the relevant Trading Day ends with respect to JGB Futures Contract and Option Contract on JGB Futures or at 11:00 A.M. on the applicable day\*<sup>1</sup> with respect to Security Option Contract, Index Futures Contract and Index Option Contract"; the phrase, "Position which becomes subject to a Cross Margining Request on the relevant Trading Day" is deemed to be "Position which becomes subject to a Cross Margining Request on the preceding Trading Day"; the phrase "buying Position for a Trading Participant's proprietary account" is deemed to be "buying Position for a Trading Participant's proprietary account at the end of the Morning Session on the day on which the relevant Trading Day ends with respect to JGB Futures Contract and Option Contract on JGB Futures or at 11:00 A.M. on the applicable day\*<sup>1</sup> with respect to Security Option Contract, Index Futures Contract and Index Option Contracts"; the phrase, "With respect to Security Option Contracts, the amount equal to the Net Buying Amount for a Trading Participant's proprietary account" shall be deemed to be "With respect to Security Option Contracts, the amount equal to the Net Buying Amount for a Trading Participant's proprietary account at 11:00 A.M. on the applicable day"; the phrase, "Settlement Price," is deemed to be "Intraday Settlement Price"; the phrase, "With respect to Option Contracts on JGB Futures, the amount equal to the Net Buying Amount for a Trading Participant's proprietary account" shall be deemed to be "With respect to Option Contracts on JGB Futures, the amount equal to the Net Buying Amount for a Trading Participant's proprietary account at the end of the Morning Session on the day on which the relevant Trading Day ends"; the phrase, "With respect to Index Option Contracts, the amount equal to the Net Buying Amount for a Trading Participant's proprietary account" shall be deemed to be "With respect to Index Option Contracts, the amount equal to the Net

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Buying Amount for a Trading Participant's proprietary account at 11:00 A.M. on the applicable day"; and the phrase "selling position for a Trading Participant's proprietary account" shall be deemed to be "selling Position for a Trading Participant's proprietary account at the end of the Morning Session on the day on which the relevant Trading Day ends with respect to JGB Futures Contract and Option Contract on JGB Futures or at 11:00 A.M. on the applicable day<sup>\*1</sup> with respect to Security Option Contract, Index Futures Contract and Index Option Contracts."

(\*1 in the case of an Index Futures Contract or Index Option Contract, the applicable Trading Day)

- (2) Intraday Value Equivalent to Differences Pertaining to Futures Contracts  
With respect to a Futures Contract, the sum of the amounts prescribed in (a) and (b) below.
  - (a) Sum of the amounts prescribed in (i) and (ii) below:
    - (i) With respect to a JGB Futures Contract for proprietary account, which are concluded during the Night Session and by the end of the Morning Session on the applicable Trading Day<sup>\*1</sup>, an amount equal to the difference between its contract price and the Intraday Settlement Price.

(\*1 including J-NET Transactions<sup>\*1-1</sup> concluded before the end of the Morning Session on the applicable Trading Day)  
(\*1-1 referring to the J-NET Transactions prescribed by the Designated Market Operator; the same applies hereinafter)
    - (ii) With respect to an Index Futures Contract for proprietary account<sup>\*1</sup>, which are concluded in the night session and the daytime session before 11:00 A.M. of the applicable Trading Day, an amount equal to the difference between the contract price and the Intraday Settlement Price  
(\*1 including J-NET Transactions concluded before the 11:00 A.M. on the applicable Trading Day)
  - (b) With respect to a Position for proprietary account on the immediately preceding Trading Day, an amount equal to the difference between the Settlement Price on that preceding Trading Day and the Intraday Settlement Price.
- (3) Intraday Value Equivalent to Option Contract Price:  
The sum of the amounts prescribed in (a) and (b) below
  - (a) An amount equal to the contract price relating to an Option Contract on JGB Futures for proprietary account, which are concluded before the end of the Morning Session on the day on which the relevant Trading Day ends <sup>\*1</sup>.

(\*1 including J-NET Transactions concluded before 11:00 A.M. on the applicable Trading Day)
  - (b) An amount equal to the contract price relating to a Security/Index Option Contract for proprietary account, which is concluded before 11:00 A.M. of the Morning

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Session<sup>\*1</sup> on the applicable day<sup>\*2</sup>.

(\*1 with respect to an Index Option Contract, before 11:00 A.M. of the Daytime  
Session on the applicable Trading Day)

(\*2 including J-NET Transactions concluded before 1:00 P.M. on the applicable  
day or the applicable Trading Day)

- (4) Sum of Risk Amount Exceeding Collateral for each account set forth in Article 46-3  
and Article 46-4 of the Business Rules  
Sum of the amount calculated as per *Appendix 2* by each account set forth in Article  
46-3 and Article 46-4 of the Business Rules.

(Article 20-4 Intraday Settlement Price)

In the case where JSCC causes the Margin to be deposited pursuant to the provisions of  
Paragraph 1 of Article 20-2, JSCC will determine the Intraday Settlement Price in a manner  
prescribed by JSCC.

(Article 21 Deposit of Emergency Margin)

1 In the case where the prices of the JGB Futures Contracts or Index Futures Contracts fall  
under each Item below or where otherwise deemed necessary by JSCC, if the sum of the  
amount of money and the value of the securities valued based on their substituting prices,  
which have been deposited with JSCC by a Clearing Participant as the Margin for  
proprietary account, is less than the amount required for the Emergency Margin stipulated  
in the immediately following Article, such Clearing Participant shall deposit with JSCC as  
the Margin for proprietary account an amount not less than the amount equal to such  
shortfall by 4 P.M. on the applicable day. In such event, securities may be deposited in lieu  
of cash as the relevant Margin.

(1) Where the extent of fluctuations in the prices of the JGB Futures Contracts exceeds  
the thresholds prescribed by JSCC in the Afternoon Session, or

(2) Where the extent of fluctuations in the prices of the Index Futures Contracts exceeds  
the thresholds prescribed by JSCC in the daytime session.

2 In the case where JSCC causes the Margin to be deposited pursuant to the provisions of the  
preceding Paragraph, JSCC shall provide the Clearing Participant with notice to that effect  
promptly.

3 Notwithstanding the provisions of Paragraph 1, if the amount obtained, in respect of a  
Clearing Participant, by deducting the amount required for Margin for the Clearing  
Participant's proprietary account applied at the time of the calculation of the required  
amount for Emergency Margin from the required amount for Emergency Margin is not more  
than 10 million yen, such Clearing Participant has no obligation of additional deposit of the  
Clearing Participant's Proprietary Margin

4 The provisions of Paragraph 2 of Article 20 shall apply *mutatis mutandis* to the Margin set

forth in Paragraph 1.

(Article 22 Amount Required for Emergency Margin)

The amount required for the Emergency Margin shall be the Recalculated Risk Amount, adding the amount of the Value Equivalent to Differences Pertaining to Futures Contracts and the amount of the Value Equivalent to Option Contract Price if such amounts are to be paid, and deducting the foregoing amounts if such amounts are to be received, and then adding the Risk Amount Exceeding Collateral for each account set forth in Article 46-3 and Article 46-4 of the Business Rules. In such event, the terms used above shall have the meanings set forth in the following Items:

(1) Recalculated Risk Amount:

An amount equal to the Margin requirement for proprietary account which is calculated pursuant to the provisions of Article 4, after the following changes are made to the provisions of Article 4: the phrase, "Trading Participant's proprietary Position relating to Futures and Option Contracts" is deemed to be "Trading Participant's proprietary Position at 1:00 P.M. on the day on which the relevant Trading Day ends with respect to the JGB Futures Contract and Option Contract on JGB Futures, or at 1:00 P.M. on the applicable day<sup>2</sup> with respect to the Security Option Contract, Index Futures Contract and Index Option Contract; the phrase, "Position which becomes subject to a Cross Margining Request on the relevant Trading Day" is deemed to be "Position which becomes subject to a Cross Margining Request on the immediately preceding Trading Day"; the phrase, "buying Position for a Trading Participant's proprietary account" is deemed to be "buying Position for a Trading Participant's proprietary account at 1:00 P.M. on the day on which the relevant Trading Day ends with respect to JGB Futures Contract and Option Contract on JGB Futures or at 1:00 P.M. on the applicable day<sup>1</sup> with respect to Security Option Contract, Index Futures Contract and Index Option Contracts"; the phrase, "With respect to Security Option Contracts, the amount equal to the Net Buying Amount for a Trading Participant's proprietary account" shall be deemed to be "With respect to Security Option Contracts, the amount equal to the Net Buying Amount for a Trading Participant's proprietary account at 1:00 P.M. on the applicable day"; the phrase, "Settlement Price," is deemed to be "Emergency Settlement Price"; the phrase, "With respect to Option Contracts on JGB Futures, the amount equal to the Net Buying Amount for a Trading Participant's proprietary account" shall be deemed to be "With respect to Option Contracts on JGB Futures, the amount equal to the Net Buying Amount for a Trading Participant's proprietary account at 1:00 P.M. on the day on which the relevant Trading Day ends"; the phrase, "With respect to Index Option Contracts, the amount equal to the Net Buying Amount for a Trading Participant's proprietary account" shall be deemed to be "With respect to Index Option Contracts, the amount equal to the Net Buying Amount for a Trading Participant's proprietary account at 1:00 P.M. on the applicable day"; and the

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Rules on Margins, etc. for Futures and Option Contracts phrase, “selling position for a Trading Participant’s proprietary account” shall be deemed to be “selling Position for a Trading Participant’s proprietary account at 1:00 P.M. on the day on which the relevant Trading Day ends with respect to JGB Futures Contract and Option Contract on JGB Futures or at 1:00 P.M. on the applicable day\*<sup>1</sup> with respect to Security Option Contract, Index Futures Contract and Index Option Contracts.”

(\*<sup>1</sup> in the case of an Index Futures Contract or Index Option Contract, the applicable Trading Day)

### (2) Value Equivalent to Differences Pertaining to Futures Contracts:

With respect to a Futures Contract, the sum of the amounts prescribed in (a) and (b) below.

(a) Sum of the amounts prescribed in (i) and (ii) below:

(i) With respect to a JGB Futures Contract for proprietary account which are concluded during the Night Session and Afternoon Session before 1:00 P.M. on the applicable Trading Day\*<sup>1</sup>, an amount equal to the difference between its contract price and the Intra-Day Settlement Price.

(\*<sup>1</sup> including J-NET Transactions\*<sup>1-1</sup> concluded before 1:00 P.M. on the applicable Trading Day)

(ii) With respect to an Index Futures Contract for proprietary account\*<sup>1</sup> which are concluded in the night session and the daytime session before 1:00 P.M. on the applicable Trading Day, an amount equal to the difference between the contract price and the Intra-Day Settlement Price

(\*<sup>1</sup> including J-NET Transactions \*<sup>1-1</sup> concluded before the 1:00 P.M. on the applicable Trading Day; the same applies hereinafter in this (ii))

(b) With respect to a Position for proprietary account on the immediately preceding Trading Day, an amount equal to the difference between the Settlement Price on that preceding Trading Day and the Intra-Day Settlement Price.

### (3) Value Equivalent to Option Contract Price:

The sum of the amounts prescribed in (a) and (b) below

(a) An amount equal to the contract price relating to an Option Contract on JGB Futures for proprietary account, which are concluded before 1:00 P.M. on the day on which the applicable Trading Day ends\*<sup>1</sup>.

(\*<sup>1</sup> including J-NET Transactions concluded before 1:00 P.M. on the day on which the applicable Trading Day ends)

(b) An amount equal to the contract price relating to a Security/Index Option Contract for proprietary account, which is concluded during the Afternoon Session before 1:00 P.M.\*<sup>1</sup> on the applicable day\*<sup>2</sup>.

(\*<sup>1</sup> with respect to an Index Option Contract, before 1:00 P.M. of the Daytime Session on the applicable Trading Day)

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(\*<sup>2</sup> including J-NET Transactions concluded before 1:00 P.M. on the applicable day or Trading Day)

(4) Risk Amount Exceeding Collateral for each account set forth in Article 46-3 and Article 46-4 of the Business Rules

Sum of the amount calculated as per *Appendix 2* by each account set forth in Article 46-3 and Article 46-4 of the Business Rules.

(Article 23 Emergency Settlement Price)

In the event that JSCC causes the Margin to be deposited pursuant to the provisions of Paragraph 1 of Article 21, JSCC shall determine the Emergency Settlement Price in accordance with the rules prescribed by JSCC.

(Article 23-2 Deposit of Emergency Margin for Specified Party)

1 JSCC may increase the amount required for Margin in respect of the Clearing Participant falling under any of the criteria set forth in either of the following Items:

(1) For any of the accounts of the Clearing Participant set forth in Article 46-3 and Article 46-4, the ratio of the Risk Equivalent under Normal Market Conditions by each account set forth in Article 46-3 and Article 46-4 of the Business Rules to the Expected Margin\*<sup>1</sup> for the relevant account exceeds the value prescribed by JSCC; or

(\*<sup>1</sup> the amount calculated in a manner prescribed by JSCC as the amount expected to be deposited as Margin; the same applies in the following Item)

(2) The value obtained by dividing the Total Risk Equivalent under Normal Market Conditions of the relevant Clearing Participant set forth in Paragraph 2 of the following Article by the Expected Margin for proprietary account exceeds the value prescribed by JSCC according to the amount of the relevant Clearing Participant's net worth\*<sup>1</sup> or its financial condition such as cash, etc.

(\*<sup>1</sup> in the case of a Registered Financial Institution and a Securities Finance Company, the amount of its net assets)

2 JSCC shall provide the Clearing Participant falling under either of the Items of the preceding Paragraph with notice to that effect and the amount of shortfall promptly.

3 The Clearing Participant received the notice set forth in the preceding Paragraph shall additionally deposit with JSCC as the Clearing Participant's Proprietary Margin an amount not less than the amount of such shortfall within 3 hours after the notice is given. In such event, securities may be deposited in lieu of cash as the relevant Margin.

4 Notwithstanding the provisions of the preceding Paragraph, when JSCC specifically admits taking into consideration operating hours of the fund settlement infrastructures and other circumstances, such as deposit operations, JSCC may change the deposit deadline and/or the relevant amount.

5 The provisions of Paragraph 2 of Article 20 shall apply *mutatis mutandis* to the Margin set

forth in Paragraph 3.

(Article 23-3 Risk Equivalent under Normal Market Conditions)

- 1 The Risk Equivalent under Normal Market Conditions for each account set forth in Article 46-3 and Article 46-4 of the Business Rules shall be the Recalculated Risk Amount as per *Appendix 2*, adding the amount of the Value Equivalent to Differences Pertaining to Futures Contracts and the amount of the Value Equivalent to Option Contract Price if such amounts are to be paid, and deducting the foregoing amounts if such amounts are to be received.
- 2 The Total Risk Equivalent under Normal Market Conditions shall be the sum of the value<sup>\*1</sup> obtained, for accounts set forth in Article 46-3 and Article 46-4 of the Business Rules, by deducting the expected amount of Margin deposit from the value obtained according to the preceding Paragraph for the relevant account, and then adding the amount calculated according to the provisions of the preceding Paragraph in respect of the account set forth in Item (1) of Article 46-3 of the Business Rules.  
(\*<sup>1</sup> positive value only)
- 3 In the case where JSCC causes the Margin to be deposited pursuant to the provisions of the Paragraph 3 of Article 23-2, JSCC shall determine Monitoring Settlement Price..

(Article 24 Right to Claim a Refund of the Margin)

- 1 The entity referenced in one of the following Items shall have the right to claim a refund of such portion of the Clearing Participant's Commissioned Margin deposited with JSCC in connection with each customer of the Clearing Participant, which is described in the applicable Item; provided, however, that the amount of the refund shall not exceed the total of: the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant's Commissioned Margin (Direct Deposit); and the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant customer as the Customer Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant's Commissioned Margin (Replaced)<sup>\*1</sup>.

(\*<sup>1</sup> including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC; hereinafter referred to as the "Total Sum of Clearing Participant's Margin Pertaining to Customer's Actual Deposit" in this Paragraph)

- (1) The relevant customer

An amount equal to the Total Sum of Clearing Participant's Margin Pertaining to Customer's Actual Deposit, deducting an amount equal to the yet-to-be performed

Obligations Pertaining to Futures and Option Contracts owed by the relevant customer to the Clearing Participant.

(2) The Clearing Participant

An amount equal to the Total Sum of Clearing Participant's Margin Pertaining to Customer's Actual Deposit, deducting the amount set forth in the preceding Item, and further deducting an amount equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Clearing Participant to JSCC, where such contracts are pursuant to the commission by the relevant customer.

2 Notwithstanding the provisions of the preceding Paragraph, in the case where the customer of the Clearing Participant is a Broker, the entity referenced in one of the following Items shall have the right to claim a refund of such portion of the Clearing Participant's Commissioned Margin deposited with JSCC in connection with an Applicant, which is described in the applicable Item; provided, however, that the amount of the refund shall not exceed the total of: the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC by the relevant Applicant as the Clearing Participant's Commissioned Margin (Direct Deposit); the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant Applicant as the Brokerage Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant's Commissioned Margin (Replaced by Broker); and the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant Applicant as the Brokerage Margin or the Customer Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant's Commissioned Margin (Replaced)\*1.

(\*1 including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC; hereinafter referred to as the "Total Sum of Clearing Participant's Margin Pertaining to Applicant's Actual Deposit" in this Paragraph)

(1) The relevant Applicant

An amount equal to the Total Sum of Clearing Participant's Margin Pertaining to Applicant's Actual Deposit, deducting an amount equal to the yet-to-be performed Obligations Pertaining to Futures and Option Contracts owed by the relevant Applicant to the relevant customer.

(2) The relevant customer

An amount equal to the Total Sum of Clearing Participant's Margin Pertaining to Applicant's Actual Deposit, deducting the amount set forth in the preceding Item, and further deducting an amount equal to the yet-to-be performed Obligations Pertaining to

Futures and Option Contracts owed by the relevant customer to the Clearing Participant, where such contracts are pursuant to the commission by the relevant Applicant.

(3) The Clearing Participant

An amount equal to the Total Sum of Clearing Participant's Margin Pertaining to Applicant's Actual Deposit, deducting the amounts set forth in the preceding two Items, and further deducting an amount equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Clearing Participant to JSCC, where such contracts are pursuant to the commission by the relevant Applicant.

3 Notwithstanding the provisions of Paragraph 1, in the case where the customer of the Clearing Participant is a Broker, the entity referenced in one of the following Items shall have the right to claim a refund of such portion of the Clearing Participant's Commissioned Margin deposited with JSCC in connection with a Broker, which is described in the applicable Item; provided, however, that the amount of the refund shall not exceed the total of: the amount deposited with JSCC in excess of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant Applicant as the Brokerage Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant's Commissioned Margin (Replaced by Broker); and the amount deposited with the Clearing Participant as the Customer Margin in excess of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant Applicant as the Brokerage Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant's Commissioned Margin (Replaced)\*<sup>1</sup>.

(\*<sup>1</sup> including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC; hereinafter referred to as the "Total Sum of Clearing Participant's Margin Pertaining to Broker's Actual Deposit" in this Paragraph)

(1) The relevant customer

An amount equal to the Total Sum of Clearing Participant's Margin Pertaining to Broker's Actual Deposit, deducting an amount\*<sup>1</sup> equal to the yet-to-be performed Obligations Pertaining to Futures and Option Contracts owed by the relevant customer to the Clearing Participant.

(\*<sup>1</sup> excluding the amount which is deducted pursuant to the provisions of Item (2) of the preceding Paragraph)

(2) The Clearing Participant

An amount equal to the Total Sum of Clearing Participant's Margin Pertaining to Broker's Actual Deposit, deducting the amount set forth in the preceding Item, and further deducting an amount\*<sup>1</sup> equal to the yet-to-be performed payment or delivery Obligations

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Pertaining to Futures and Option Contracts owed by the relevant Clearing Participant to JSCC, where such contracts are pursuant to the commission by the relevant customer.

(\*1 excluding the amount which is deducted pursuant to the provisions of Item (3) of the preceding Paragraph)

4 The entity referenced in one of the following Items shall have the right to claim a refund of such portion of the Non-Clearing Participant's Commissioned Margin deposited with JSCC in connection with a customer of the Non-Clearing Participant, which is described in the applicable Item; provided, however, that the amount of the refund shall not exceed the total of: the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Direct Deposit); and the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant customer as the Customer Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced)\*1.

(\*1 including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC; hereinafter referred to as the "Total Sum of Non-Clearing Participant's Margin Pertaining to Customer's Actual Deposit" in this Paragraph)

(1) The relevant customer

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Customer's Actual Deposit, deducting an amount equal to the yet-to-be performed Obligations Pertaining to Futures and Option Contracts owed by the relevant customer to the Non-Clearing Participant.

(2) The Non-Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Customer's Actual Deposit, deducting the amount set forth in the preceding Item, and further deducting an amount equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Non-Clearing Participant to the Designated Clearing Participant, where such contracts are pursuant to the commission by the relevant customer.

(3) The Designated Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Customer's Actual Deposit, deducting the amounts set forth in the preceding two Items, and further deducting an amount equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Designated Clearing Participant to JSCC, where such contracts are pursuant to the commission by the relevant customer.

5 Notwithstanding the provisions of the immediately preceding Paragraph, in the case where the customer of the Non-Clearing Participant is a Broker, the entity referenced in one of the following Items shall have the right to claim a refund of such portion of the Non-Clearing Participant's Commissioned Margin deposited with JSCC in connection with an Applicant, which is described in the applicable Item; provided, however, that the amount of the refund shall not exceed the total of: the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC by the relevant Applicant as the Non-Clearing Participant's Commissioned Margin (Direct Deposit); the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant Applicant as the Brokerage Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced by Broker); and the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant Applicant as the Brokerage Margin or Customer Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced)\*<sup>1</sup>.

(\*<sup>1</sup> including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC; hereinafter referred to as the "Total Sum of Non-Clearing Participant's Margin Pertaining to Applicant's Actual Deposit" in this Paragraph)

(1) The relevant Applicant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Applicant's Actual Deposit, deducting an amount equal to the yet-to-be performed Obligations Pertaining to Futures and Option Contracts owed by the relevant Applicant to the relevant customer.

(2) The relevant customer

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Applicant's Actual Deposit, deducting the amount set forth in the preceding Item, and further deducting an amount equal to the yet-to-be performed Obligations Pertaining to Futures and Option Contracts owed by the relevant customer to the Non-Clearing Participant, where such contracts are pursuant to the commission by the relevant Applicant.

(3) The Non-Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Applicant's Actual Deposit, deducting the amounts set forth in the preceding two Items, and further deducting an amount equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant

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Non-Clearing Participant to the Designated Clearing Participant, where such contracts are pursuant to the commission by the relevant Applicant.

(4) The Designated Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Applicant's Actual Deposit, deducting the amounts set forth in the preceding three Items, and further deducting an amount equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Designated Clearing Participant to JSCC, where such contracts are pursuant to the commission by the relevant Applicant.

6 Notwithstanding the provisions of Paragraph 4, in the case where the customer of the Non-Clearing Participant is a Broker, the entity referenced in one of the following Items shall have the right to claim a refund of such portion of the Non-Clearing Participant's Commissioned Margin deposited with JSCC in connection with a Broker, which is described in the applicable Item; provided, however, that the amount of the refund shall not exceed the total of: the amount deposited with JSCC in excess of the sum of the amount of money and the Marked to Market Value of the securities which has been deposited by the relevant Applicant as the Brokerage Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which has been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced by Broker); and the amount deposited with the Non-Clearing Participant as the Customer Margin in excess of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant Applicant as the Brokerage Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced)\*<sup>1</sup>.

(\*<sup>1</sup> including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC; hereinafter referred to as the "Total Sum of Non-Clearing Participant's Margin Pertaining to Broker's Actual Deposit" in this Paragraph)

(1) The relevant customer

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Broker's Actual Deposit, deducting an amount\*<sup>1</sup> equal to the yet-to-be performed Obligations Pertaining to Futures and Option Contracts owed by the relevant customer to the Non-Clearing Participant.

(\*<sup>1</sup> excluding the amount which is deducted pursuant to the provisions of Item (2) of the preceding Paragraph)

(2) The Non-Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to

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Broker's Actual Deposit, deducting the amount set forth in the preceding Item, and further deducting an amount\*<sup>1</sup> equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Non-Clearing Participant to the Designated Clearing Participant, where such contracts are pursuant to the commission by the relevant customer.

(\*<sup>1</sup> excluding the amount which is deducted pursuant to the provisions of Item (3) of the preceding Paragraph)

(3) The Designated Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Broker's Actual Deposit, deducting the amounts set forth in the preceding two Items, and further deducting the amount\*<sup>1</sup> equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Designated Clearing Participant to JSCC, where such contracts are pursuant to the commission by the relevant customer.

(\*<sup>1</sup> excluding the amount which is deducted pursuant to the provisions of Item (4) of the preceding Paragraph)

7 The entity referenced in one of the following Items shall have the right to claim a refund of such portion of the Non-Clearing Participant's Proprietary Margin and Non-Clearing Participant's Commissioned Margin deposited with JSCC with respect to a Non-Clearing Participant, which is set forth in the applicable Item; provided, however, that the amount of the refund shall not exceed the total\*<sup>1</sup> of: the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Proprietary Margin (Direct Deposit); the sum of the amount of money and the Marked to Market Value of the securities which have been provided as the Margin to the Clearing Participant by the relevant Non-Clearing Participant, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Proprietary Margin (Replaced); the amount deposited with JSCC in excess of the sum of the amount\*<sup>2</sup> of money and the Marked to Market Value of the securities which have been deposited with the Non-Clearing Participant as the Customer Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced); and the amount deposited with the Clearing Participant as the Margin of the Non-Clearing Participant in excess of the sum of the amount\*<sup>3</sup> of money and the Marked to Market Value of the securities which have been deposited with the Non-Clearing Participant as the Customer Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced).

(\*<sup>1</sup> hereinafter referred to as the "Total Sum of Non-Clearing Participant's Margin Pertaining

to its own Actual Deposit” in this Paragraph)

(\*2 including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC)

(\*3 including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC)

(1) The relevant Non-Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant’s Margin Pertaining to its own Actual Deposit, deducting an amount\*1 equal to the entire amount of the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Non-Clearing Participant to the Designated Clearing Participant.

(\*1 excluding the amounts which are deducted pursuant to the provisions of Item (2) of Paragraph 4, Item (3) of Paragraph 5 and Item (2) of the preceding Paragraph)

(2) The Designated Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant’s Margin Pertaining to its own Actual Deposit, deducting the amount set forth in the preceding Item, and further deducting an amount\*1 equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the Designated Clearing Participant to JSCC, where such contracts are pursuant to the relevant Non-Clearing Participant’s commission of the Brokerage for Clearing of Securities, etc.

(\*1 excluding the amounts which are deducted pursuant to the provisions of Item (3) of Paragraph 4, Item (4) of Paragraph 5 and Item (3) of the preceding Paragraph)

8 A Clearing Participant shall have the right to claim a refund of such portion of the Clearing Participant’s Proprietary Margin and Clearing Participant’s Commissioned Margin deposited with JSCC with respect to such Clearing Participant, which is equal to the Total Sum of Clearing Participant’s Margin Pertaining to its own Actual Deposit deducting an amount\*1 equal to the entire amount of the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Clearing Participant to JSCC; provided, however, that the amount of the refund shall not exceed the total\*2 of: the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant’s Proprietary Margin; the amount deposited with JSCC in excess of the sum\*3 of the amount of money and the Marked to Market Value of the securities which have been deposited with the Clearing Participant as the Customer Margin which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant’s Commissioned Margin (Replaced); the amount deposited with JSCC in excess of the sum of the amount of money and the Marked to Market Value of the securities which have been provided as the Margin to the Clearing Participant by the relevant Non-Clearing

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Participant, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Proprietary Margin (Replaced); and the amount deposited with JSCC in excess of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with the Clearing Participant as the Margin of the Non-Clearing Participant by the relevant Non-Clearing Participant, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced).

(\*<sup>1</sup> excluding the amounts which are deducted pursuant to the provisions of Item (2) of Paragraph 1, Item (3) of Paragraph 2, Item (2) of Paragraph 3, Item (3) of Paragraph 4, Item (4) of Paragraph 5, Item (3) of Paragraph 6 and Item (2) of the preceding Paragraph)

(\*<sup>2</sup> hereinafter referred to as the "Total Sum of Clearing Participant's Margin Pertaining to its own Actual Deposit" in this Paragraph)

(\*<sup>3</sup> including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC)

9 The right to claim a refund of the Margin shall be exercised in the manner prescribed by the following Items:

(1) With respect to a Clearing Participant's right to claim a refund, the relevant Clearing Participant shall exercise such right to claim a refund after notifying JSCC that such right is being exercised;

(2) With respect to a Non-Clearing Participant's right to claim a refund, the Designated Clearing Participant shall exercise it on behalf the relevant Non-Clearing Participant;

(3) With respect to a Trading Participant's customer's right to claim a refund, the relevant Trading Participant\*<sup>1</sup> shall exercise it on behalf of such customer; and

(\*<sup>1</sup> in the event that the relevant Trading Participant is a Non-Clearing Participant, the relevant Non-Clearing Participant and its Designated Clearing Participant)

(4) With respect to an Applicant's right to claim a refund, the Trading Participant\*<sup>1</sup> to which the Futures and Option Contracts pursuant to the commission by the relevant Applicant is re-commissioned by a customer shall exercise it on behalf of the relevant Applicant.

(\*<sup>1</sup> in the event that the relevant Trading Participant is a Non-Clearing Participant, the relevant Non-Clearing Participant and its Designated Clearing Participant)

(Article 24-2 Notification of Amount Required for Margin)

1 JSCC shall, on each Trading Day\*<sup>1</sup>, notify a Clearing Participant of the amount required for the Margin for its proprietary account on such Trading Day\*<sup>2</sup> after the process for fixing Positions\*<sup>3</sup>.

(\*<sup>1</sup> in the case of an Security Option Contract, every day)

Reference Translation

Rules on Margins, etc. for Futures and Option Contracts

(\*<sup>2</sup> in the case of an Security Option Contract, such day)

(\*<sup>3</sup> referring to the process to subtract the quantity and the amount notified o pursuant to the provisions of Articles 73-2, 73-6, 73-16, 73-20 and 73-26 of the Business Rules as the amount pertaining to the settlement and the process to add or subtract the Positions along with the exercise of option and the assignment of quantity pursuant to the provisions of Article 73-19 of the Business Rules; the same applies in this Article)

2 For each Trading Day\*<sup>1</sup>, JSCC shall notify Clearing Participants the amount required for Margin set forth in Article 5-2 for each account set forth in Article 46-3 and Article 46-4 of the Business Rules as the amount required for Margin for customer and for Brokerage for Clearing of Securities, etc. for the applicable Trading Day\*<sup>2</sup> after completion of the process of fixing Position of the applicable Trading Day.

(\*<sup>1</sup> in the case of a Security Option Contract, every day)

(\*<sup>2</sup> the applicable day in respect of Security Option Contracts, the same applies in this Section)

(Article 25 Notification of Position for Customers' Account and Brokerage for Clearing of Securities, etc.)

On each Trading Day\*<sup>1</sup>, for each issue and by the cutoff time prescribed by JSCC, a Clearing Participant shall notify JSCC of information related to Short Position and Long Position for each customer or for Voluntary Breakdown Unit in respect of the relevant issue, by each account set forth in Item (2) a. of Article 46-3, Item (3) a. of Article 46-3 and Item (2) a. of Article 46-4 of the Business Rules. In this case, only in respect of information related to Short Position and Long Position under commission of the Brokerage for Clearing of Securities, etc., the Clearing Participant may have the Non-Clearing Participant submit notification in lieu of the submission by itself.

(\*<sup>1</sup> in the case of a Security Option Contract, every day)

(Article 26 Obligation to Report Matters Concerning Futures and Option Contracts pursuant to the Commission by Customers and pursuant to the Non-Clearing Participants' Commission of the Brokerage for Clearing of Securities, etc.)

In the event that JSCC requests that a Clearing Participant submit a report setting forth the quantity of the Position pursuant to the commission by customers or other matters concerning Futures and Option Contracts pursuant to the commission by customers, the quantity of the Position pursuant to the commission of the Brokerage for Clearing of Securities, etc. and other matters concerning Futures and Option Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., which are deemed necessary by JSCC, the Clearing Participant shall immediately submit a document setting forth such matters to JSCC.

Rules on Margins, etc. for Futures and Option Contracts  
Chapter 3 Handling, etc. of Unsettled Contracts in the case of  
Suspension of Obligation Assumption due to Insolvency

Section 1 Handling of Unsettled Contracts

(Article 27 Handling of Unsettled Contracts for the Clearing Participants' Proprietary Account)

1 In the event that JSCC implements the Suspension of Obligation Assumption due to Insolvency, JSCC may cause other Clearing Participants designated by JSCC to implement an Offsetting-Sale or Offsetting-Purchase, or exercise options, in connection with the Unsettled Contracts\*<sup>1</sup> for the Clearing Participant's proprietary account subject to the Suspension of Obligation Assumption due to Insolvency.

(\*<sup>1</sup> excluding the Unsettled Contracts relating to contract month contracts remaining after the Last Trading Day of the contract month contracts whose Last Trading Day has arrived; the same applies hereinafter in this Chapter)

2 When the preceding Paragraph applies, an entrustment agreement shall be deemed to have been formed between the other Clearing Participants designated by JSCC and the Clearing Participant subject to the Suspension of Obligation Assumption due to Insolvency.

(Article 28 Handling of Unsettled Contracts pursuant to the Commission by the Clearing Participants' Customers)

In the event that a Designated Market Operator implements the Suspension of Transactions, etc. due to Insolvency with respect to a Clearing Participant, JSCC shall cause those Unsettled Contracts between JSCC and the Clearing Participant subject to the Suspension of Transactions, etc. due to Insolvency\*<sup>1</sup>, which are pursuant to the commission by the relevant Clearing Participant's customers, to be transferred to other Clearing Participants, or cause other necessary arrangements to be made, depending on the details of the measure taken by the relevant Designated Market Operator.

(\*<sup>1</sup> hereinafter referred to as the "Insolvent Clearing Participant")

(Article 29 Handling of Unsettled Contracts pursuant to the Commission of the Brokerage for Clearing of Securities, etc.)

1 In the event that a Designated Market Operator implements the Suspension of Transactions, etc. due to Insolvency with respect to a Non-Clearing Participant, JSCC shall cause those Unsettled Contracts between JSCC and the Designated Clearing Participant of the Non-Clearing Participant subject to the Suspension of Transactions, etc. due to Insolvency, which are pursuant to the relevant Non-Clearing Participant's commission of the Brokerage for Clearing of Securities, etc., to be transferred to other Clearing Participants, or cause other necessary arrangements to be made, depending on the details of the measure taken by the relevant Designated Market Operator.

Reference Translation

Rules on Margins, etc. for Futures and Option Contracts

2 In the event that, as a result of a Designated Clearing Participant becoming subject to the Suspension of Obligation Assumption due to Insolvency, a measure is taken by the Designated Market Operator with respect to the Non-Clearing Participant which is suspended from commissioning the Brokerage for Clearing of Securities, etc., under which those Unsettled Contracts between JSCC and the relevant Designated Clearing Participant, which constitute Unsettled Contracts involving the relevant Non-Clearing Participant, are transferred to other Clearing Participants or other necessary arrangements are made, the Designated Clearing Participant's right to act as an agent stipulated in Item (2) of Paragraph 9 of Article 24 shall be extinguished.

Section 2 Handling of the Clearing Participant's Commissioned Margin

(Article 30 Handling of Margin for Customers' Account)

1 In the event that the Unsettled Contracts pursuant to the commission by the Insolvent Clearing Participant's customers are transferred to other Clearing Participants\*<sup>1</sup> pursuant to the provisions of Article 28\*<sup>2</sup>, JSCC shall deem the Margin\*<sup>3</sup> for the customer's account, which has been deposited with JSCC by such Insolvent Clearing Participant in connection with the relevant customer, to be deposited with JSCC by the relevant Transferee Clearing Participant in the case of Insolvency\*<sup>4</sup> acting as an agent on the day on which the relevant Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency is implemented.

(\*<sup>1</sup> each of such other Clearing Participants, to which the transfer is made, is hereinafter referred to as the "Transferee Clearing Participant in the case of Insolvency")

(\*<sup>2</sup> hereinafter referred to as the "Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency")

(\*<sup>3</sup> limited to the portion with respect to which the relevant customer or its Applicant has the right to claim a refund pursuant to the provisions of Article 24; the same applies hereinafter in the following Paragraph)

(\*<sup>4</sup> in the case where the Transferee Trading Participant in the case of Insolvency prescribed by the Designated Market Operator is a Non-Clearing Participant, the relevant Transferee Trading Participant in the case of Insolvency and the Transferee Clearing Participant in the case of Insolvency which is its Designated Clearing Participant)

2 The amount deposited as the Clearing Participant's Commissioned Margin (Replaced), which is a part of the Margin for customers' account pertaining to the relevant customer and is deemed to have been deposited with JSCC pursuant to the provisions of the preceding Paragraph, shall be the lesser of the amounts set forth in the following Items:

(1) An amount equal to the sum of the amount of money and the Marked to Market Value of the securities deposited with the Insolvent Clearing Participant by the customer as the Customer Margin; or

(2) An amount equal to the Clearing Participant's Commissioned Margin (Replaced) deposited with JSCC by the Insolvent Clearing Participant, deducting the amount of expenses required for the acquisition of Japanese yen cash in exchange for the funds which has been deposited by the Insolvent Clearing Participant in foreign currency as the Clearing Participant's Commissioned Margin (Replaced) or for the conversion into cash by JSCC of the securities, which had been deposited by the Insolvent Clearing Participant in lieu of cash as the Clearing Participant's Commissioned Margin (Replaced) pursuant to the provisions of the immediately following Article, and then apportioned pro-rata according to the amount equal to the sum of the amount of money

Rules on Margins, etc. for Futures and Option Contracts and the Marked to Market Value of the securities deposited with such Insolvent Clearing Participant by each customer as the Customer Margin.

(Article 31 Conversion into Cash of the Margin (Replaced), etc.)

- 1 In the event that a Designated Market Operator causes an Offsetting-Sale, Offsetting-Purchase or exercise of options to be implemented with respect to the Unsettled Contracts pursuant to the commission by the Insolvent Clearing Participant's customers, or causes the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency pursuant to the commission by the Insolvent Clearing Participant's customers to be implemented, JSCC may acquire Japanese yen cash in exchange for all or a part of the funds deposited in foreign currency as the Clearing Participant's Commissioned Margin (Replaced) or convert some or all of the securities deposited in lieu of cash as the Clearing Participant's Commissioned Margin (Replaced) into cash, using a method deemed appropriate by JSCC. In such event, an entrustment agreement shall be deemed to have been formed among the Insolvent Clearing Participant, the customer and JSCC.
- 2 When the preceding Paragraph applies, if the customer is a Broker and if it is an entity who is deemed by the Designated Market Operator as the customer whose Obligations Pertaining to Futures and Option Contracts owed to the Insolvent Clearing Participant have become immediately due and payable, or as the customer which is not appropriate for implementing the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency, JSCC may acquire Japanese yen cash in exchange for all or a part of the funds deposited in foreign currency as the Clearing Participant's Commissioned Margin (Replaced by Broker), or convert some or all of the securities deposited in lieu of cash as the Clearing Participant's Commissioned Margin (Replaced by Broker) into cash, using a method deemed appropriate by JSCC. In such event, an entrustment agreement shall be deemed to have been formed among the Insolvent Clearing Participant, the customer, its Applicant and JSCC.

(Article 32 Special Provisions Concerning the Handling of the Margin (Replaced), etc.)

- 1 In the event that JSCC has acquired Japanese yen cash in exchange for the fund in foreign currency and/or converted the securities into cash pursuant to the provisions of Paragraph 1 of the preceding Article, the Clearing Participant's Commissioned Margin (Replaced) shall be the sum of the amount of money, other than the funds in foreign currency subject to such acquisition, and the securities, other than the securities subject to such conversion, which had been deposited with JSCC by the Insolvent Clearing Participant as the Clearing Participant's Commissioned Margin (Replaced), and the amount arising from such acquisition, deducting the amount of expenses required for such acquisition, and the amount arising from such conversion, deducting the amount of expenses required for such conversion.

2 In the event that JSCC has acquired Japanese yen cash in exchange for the funds in foreign currency, and/or converted the securities into cash pursuant to the provisions of Paragraph 2 of the preceding Article, the Clearing Participant's Commissioned Margin (Replaced by Broker) shall be the sum of the amount of money, other than the funds subject to such acquisition and the securities, other than the securities subject to such conversion, which had been deposited with JSCC by the Insolvent Clearing Participant as the Clearing Participant's Commissioned Margin (Replaced by Broker), and the amount arising from such acquisition, deducting the amount of expenses required for such acquisition, and the amount arising from such conversion, deducting the amount of expenses required for such conversion.

(Article 33 Special Provisions Concerning the Right to Claim a Refund of the Margin for Customers' Account)

1 The right of a customer to claim a refund of the Margin for customers' account, which is deemed to have been deposited with JSCC pursuant to the provisions of Paragraph 1 of Article 30, shall be exercised by the Transferee Clearing Participant in the case of Insolvency set forth in Paragraph 1 of Article 30 acting as an agent.

2 In the event that a Designated Market Operator causes an Offsetting-Sale, Offsetting-Purchase or exercise of options to be implemented with respect to the Unsettled Contracts pursuant to the commission by the Insolvent Clearing Participant's customers, or causes the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency pursuant to the commission by the Insolvent Clearing Participant's customers to be implemented, the right to claim a refund of the Margin for customers' account pertaining to the Insolvent Clearing Participant's customers\*<sup>1</sup> may be exercised directly against JSCC. In such event, if the Margin for customers' account pertaining to the relevant customers has been deposited as the Clearing Participant's Commissioned Margin (Replaced), the amount of such refund shall be limited to the lesser of the amounts set forth in the Items under Paragraph 2 of Article 30.

(\*<sup>1</sup> excluding any customer who has implemented the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency)

3 In the event that the Insolvent Clearing Participant's customer directly exercises the right to claim a refund of the Margin for customers' account against JSCC pursuant to the provisions of the preceding Paragraph, in accordance with the contract classification set forth in the following Items, JSCC shall cause such customer to notify JSCC of the matters deemed necessary by JSCC, after the day set forth in the applicable Item:

(1) JGB Futures Contract

The day on which an Offsetting-Sale, Offsetting-Purchase, Final Settlement or Settlement by Physical Delivery and Payment is implemented with respect to the Unsettled Contract pursuant to the commission by the relevant customer;

(2) Index Futures Contract

The day on which an Offsetting-Sale, Offsetting-Purchase or Final Settlement is implemented with respect to the Unsettled Contract pursuant to the commission by the relevant customer;

(3) Security Option Contract and Index Option Contract

The day on which an Offsetting-Purchase is implemented, or the Exercise Date, with respect to the Unsettled Contract pursuant to the commission by the relevant customer; and

(4) Option Contract on JGB Futures

The day on which an Offsetting-Purchase is implemented, the day on which the assignment of exercised option is implemented, or the expiration date of the Exercise Period, with respect to the Unsettled Contract pursuant to the commission by the relevant customer.

4 When the preceding Paragraph applies, if JSCC receives a demand for a refund of the Margin deposited as the Clearing Participant's Commissioned Margin (Replaced) pertaining to the relevant customer, JSCC shall make the refund in the form of cash.

(Article 34 Special Provisions Concerning the Right to Claim a Refund of the Margin for Customers' Account Pertaining to Brokers)

1 In the event that a Designated Market Operator causes an Offsetting-Sale, Offsetting-Purchase or exercise of options to be implemented with respect to the Unsettled Contracts pursuant to the brokerage of the commission by an Applicant of the Insolvent Clearing Participant's customer, if the Broker is an entity who is deemed by the Designated Market Operator as the customer whose Obligations Pertaining to Futures and Option Contracts owed to the Insolvent Clearing Participant became immediately due and payable, or as the customer which is not appropriate for implementing the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency, the Applicant of the relevant Broker may, after the date prescribed in each of the Items under Paragraph 3 of the preceding Article, request JSCC's approval of the direct exercise against JSCC of the right to claim a refund of the Margin for customers' account, after notifying JSCC of the fact that the relevant Broker is an entity who is deemed by the Designated Market Operator as the customer whose Obligations Pertaining to Futures and Option Contracts owed to the Insolvent Clearing Participant became immediately due and payable, or as the customer which is not appropriate for implementing the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency and of the amount pertaining to the relevant Applicant's right to claim a refund.

2 When the preceding Paragraph applies, JSCC shall confirm the matters set forth in the relevant notification by requiring the Insolvent Clearing Participant to submit documents deemed necessary by JSCC.

3 After confirmation is made pursuant to the provisions of the preceding Paragraph, JSCC shall approve the direct exercise of the relevant right to claim a refund.

4 When Paragraph 1 applies, the amount relating to the right to claim a refund of the Margin<sup>\*1</sup> for customers' account pertaining to the relevant Applicant shall be limited to the lesser of the amounts set forth in the following Items:

(<sup>\*1</sup> excluding the Margin deposited with JSCC as the direct deposit by the relevant Applicant)

(1) An amount equal to the sum of the amount of money<sup>\*1</sup> and the Marked to Market Value<sup>\*2</sup> of the securities which have been deposited by the Applicant of the customer with the customer as the Brokerage Margin or with the Insolvent Clearing Participant as the Customer Margin; or

(<sup>\*1</sup> when such money is denominated in a foreign currency, the amount appraised by converting such amount to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of the relevant currency in the Tokyo foreign exchange market on the day immediately preceding the day on which the Suspension of Transactions, etc. due to Insolvency is implemented)

(<sup>\*1</sup> referring to the value which is valued based on the market price on the day immediately preceding the day on which the Designated Market Operator implements the Suspension of Transactions, etc. due to Insolvency<sup>\*1-1</sup>; the same applies hereinafter in this Paragraph)

(<sup>\*1-1</sup> in the case where the applicable securities are the Foreign Government Bonds, an amount equal to their market price, converted to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of the currency used for appraisal of each Foreign Government Bonds in the Tokyo foreign exchange market on the day immediately preceding the day on which such Suspension of Transactions, etc. due to Insolvency is implemented)

(2) An amount equal to the sum of A) and B) below, apportioned pro-rata according to the amount equal to the sum of the amount of money and the Marked to Market Value of the securities deposited with or provided to the customer as the Brokerage Margin or Customer Margin by each Applicant of such customer:

A) An amount equal to the Clearing Participant's Commissioned Margin (Replaced) stipulated in Paragraph 1 of Article 32, apportioned pro-rata according to the amount<sup>\*1</sup> equal to the sum of the amount of money and the Marked to Market Value of the securities deposited with the Insolvent Clearing Participant as the Customer Margin by each customer; and

(<sup>\*1</sup> including the sum of the amount of money and the Marked to Market Value of the securities provided by the customer as the relevant Margin, during the period ending upon the deposit of such Margin by the relevant Insolvent Clearing Participant with JSCC)

Reference Translation

Rules on Margins, etc. for Futures and Option Contracts

B) The amount of the Clearing Participant's Commissioned Margin (Replaced by Broker) stipulated in Paragraph 2 of Article 32.

5 In the event that JSCC receives the claim for a refund set forth in the preceding Paragraph, JSCC shall make the refund in the form of cash, except for the directly-deposited Margin.

(Article 35 Refund, etc. of the Margin Pertaining to Transferred Position in the case of Insolvency)

A Transferee Clearing Participant in the case of Insolvency, when it intends to receive a refund of the Margin which is deemed to have been deposited with JSCC pursuant to the provisions of Paragraph 1 of Article 30, shall notify JSCC of the matters deemed necessary by JSCC.

Section 3 Handling of the Non-Clearing Participant's Commissioned Margin

(Article 36 Handling of the Margin for Customers' Account)

The provisions of Article 30 through the preceding Article shall apply *mutatis mutandis* to the handling of the Non-Clearing Participant's Commissioned Margin in the case where such Non-Clearing Participant becomes subject to the Suspension of Transactions, etc. due to Insolvency implemented by a Designated Market Operator. In such event, the phrase, "Article 28," shall be deemed to be "Article 29"; the phrase, "Insolvent Clearing Participant," shall be deemed to be "Non-Clearing Participant subject to the Suspension of Transactions, etc. due to Insolvency"; the phrase, "Clearing Participant's Commissioned Margin (Replaced)," shall be deemed to be "Non-Clearing Participant's Commissioned Margin (Replaced)"; the phrase, "Offsetting-Sale, Offsetting-Purchase or exercise of options," shall be deemed to be "commission of an Offsetting-Sale, Offsetting-Purchase or exercise of options"; the phrase, "among the Insolvent Clearing Participant, its customer and JSCC" shall be deemed to be "among the Insolvent Clearing Participant's Designated Clearing Participant, the Non-Clearing Participant subject to the Suspension of Transactions, etc. due to Insolvency, its customer and JSCC"; the phrase, "if the customer is a Broker, and if it is an entity who is deemed by the Designated Market Operator as a customer whose Obligations Pertaining to Futures and Option Contracts owed to the Insolvent Clearing Participant have become immediately due and payable, or as the customer which is not appropriate for the implementing the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency," shall be deemed to be "if the customer is a Broker, and if it is an entity who is deemed by the Designated Market Operator as a customer whose Obligations Pertaining to Futures and Option Contracts owed to the Insolvent Clearing Participant have become immediately due and payable"; the phrase, "Clearing Participant's Commissioned Margin (Replaced by Broker)" shall be deemed to be "Non-Clearing Participant's Commissioned Margin (Replaced by Broker)"; and the phrase, "among the Insolvent Clearing Participant, the customer, its Applicant and JSCC" shall be deemed to be "among the Insolvent Clearing Participant's Designated Clearing Participant, the Non-Clearing Participant subject to the Suspension of Transactions, etc. due to Insolvency, the customer, its Applicant and JSCC."

Rules on Margins, etc. for Futures and Option Contracts  
Section 4 Miscellaneous Clauses

(Article 37 Handling of Other Matters Relating to Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency, etc.)

In addition to the matters prescribed in Article 27 through the preceding Article, matters necessary for the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency shall be prescribed by JSCC on a case-by-case basis.

Rules on Margins, etc. for Futures and Option Contracts  
Chapter 4 Miscellaneous Provisions

(Article 38 Application to the Brokerage for Clearing of Securities, etc.)

With respect to the brokerage of the commission of the Brokerage for Clearing of Securities, etc. pertaining to Futures and Option Contracts, the Trading Participant commissioning the Brokerage for Clearing of Securities, etc. shall be deemed as the entity who conducts the brokerage of the relevant Futures and Option Contracts, and the provisions of Chapter 2 and Chapter 3 shall apply accordingly.

(Article 39 Determination of Necessary Matters Relating to the Margin and Handling of Unsettled Contracts, etc.)

In addition to the matters prescribed in these Rules, when necessary in connection with the Margin pertaining to Futures and Option Contracts and the handling of the Unsettled Contracts in the case of Suspension of Obligation Assumption due to Insolvency, etc., JSCC may prescribe rules concerning the required operations.

(Article 40 Authority to Make Amendments)

Amendments to these Rules shall be made by resolutions adopted at the meetings of the board of directors; provided, however, that the foregoing shall not apply when the amendments are not material.

Rules on Margins, etc. for Futures and Option Contracts  
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

- 1 These revised Rules shall come into effect on the day set by JSCC\*.
- 2 The Marked to Market Value or the market price, in the event that such market price before the Effective Date is to be used for the calculation of the substituting price, of the securities registered by the Japan Securities Dealers Association on the day immediately preceding the day on which these revised Rules come into effect\*<sup>1</sup> shall be, notwithstanding the amended provisions of Paragraph 2 of the *Appendix*, the last selling/buying price at 3 P.M. published by the Japan Securities Dealers Association.  
(\*<sup>1</sup> hereinafter referred to as the "Effective Date")
- 3 With respect to the application of the provisions of Paragraph 3 of the *Appendix* relating to the issues\*<sup>1</sup> registered by the Japan Securities Dealers Association on the day immediately preceding the Effective Date, the selling/buying volume of the relevant issue in the OTC market operated by the Japan Securities Dealers Association shall be deemed to constitute the selling/buying volume of the relevant issue in Jasdaq Securities Exchange, Inc.  
(\*<sup>1</sup> limited to the issues listed on Jasdaq Securities Exchange, Inc. on the Effective Date)  
(\*Note) The date set by JSCC in Paragraph 1 is December 13, 2004.

Supplementary Provisions

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

Supplementary Provisions

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

Supplementary Provisions

Reference Translation

Rules on Margins, etc. for Futures and Option Contracts

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 September 28, 2009.

Supplementary Provisions

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

(\*Note) The “day prescribed 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 February 28, 2011; provided, however, that the revised provisions of (\*4) of Paragraph 2 of the *Appendix* shall come into effect on January 1, 2011.

Supplementary Provisions

These revised Rules shall come into effect on November 21, 2011.

Supplementary Provisions

Reference Translation

Rules on Margins, etc. for Futures and Option Contracts

These revised Rules shall come into effect on January 30, 2012.

Supplementary Provisions

These revised Rules shall come into effect on January 4, 2013.

Supplementary Provisions

These revised Rules shall come into effect on February 12, 2013.

Supplementary Provisions

These revised Rules shall come into effect on July 16, 2013.

Supplementary Provisions

These revised Rules shall come into effect on September 24, 2013.

Supplementary Provisions

These revised Rules shall come into effect on January 10, 2014.

Supplementary Provisions

1 These revised Business Rules shall come into effect on March 24, 2014.

2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than March 24, 2014.

Supplementary Provisions

These revised Rules shall come into effect on July 22, 2014.

Supplementary Provisions

These revised Rules shall come into effect on September 22, 2014.

Supplementary Provisions

These revised Rules shall come into effect on January 19, 2015.

Supplementary Provisions

These revised Rules shall come into effect on July 6, 2015.

Supplementary Provisions

- 1 These revised Rules shall come into effect on September 24, 2015.
- 2 Notwithstanding the provisions of the immediately preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Rules shall come into effect on the day set by JSCC which is not earlier than September 24, 2015.

Supplementary Provisions

- 1 These revised Business Rules shall come into effect on October 13, 2015.
- 2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than October 13, 2015.

Supplementary Provisions

These revised Rules shall come into effect on January 18, 2016.

Supplementary Provisions

These revised Rules shall come into effect on July 4, 2016.

Reference Translation

Rules on Margins, etc. for Futures and Option Contracts  
Supplementary Provisions

These revised Rules shall come into effect on July 19, 2016.

Supplementary Provisions

These revised Rules shall come into effect on January 10, 2017.

Supplementary Provisions

These revised Rules shall come into effect on April 10, 2017.

Supplementary Provisions

These revised Rules shall come into effect on July 10, 2017.

Supplementary Provisions

These revised Rules shall come into effect on October 10, 2017.

Supplementary Provisions

These revised Rules shall come into effect on January 9, 2018.

Supplementary Provisions

1. These revised Rules shall come into effect on February 13, 2018, except for the provisions of Articles 23-2 and 23-3 which shall come into effect on the day set by JSCC which is not earlier than the date these revised Rules become effective.
2. Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Rules shall come into effect on the day set by JSCC which is not earlier than February 14, 2018.

Supplementary Provisions

These revised Rules shall come into effect on April 9, 2018.

<Appendix 1> Table Concerning Types of Securities Deposited in lieu of Cash and their Substituting Prices, etc.

1 The substituting price of the securities to be deposited in lieu of cash as the Margin, Customer Margin or Brokerage Margin shall be the amount\*<sup>1</sup> equal to their market price as of the day\*<sup>2</sup> which is two days before the day of delivery or the day of deposit with respect to the relevant securities, multiplied by a rate prescribed by JSCC; provided, however, that JSCC may change the substituting price when deemed particularly necessary by JSCC, due to significant fluctuations in the market, etc.

(\*<sup>1-1</sup> in the case where the applicable securities are the Foreign Government Bonds, an amount equal to their market price, multiplied by a rate prescribed by JSCC, converted to Japanese yen at the telegraphic transfer spot buying rate per 1 unit of the currency used for appraisal of each Foreign Government Bonds in the Tokyo foreign exchange market on the day which is two days before the day on which the Margin is deposited)

(\*<sup>1-2</sup> in the case of the substituting price of the securities to be deposited in lieu of cash as Customer Margin or Brokerage Margin, an amount not in excess of the amount resulting from the multiplication by the rate prescribed by JSCC)

(\*<sup>2</sup> if such day falls on a Non-business Day, it shall be the immediately preceding business day)

2 The types of securities, their market prices and the rates prescribed by JSCC referenced in the preceding Paragraph shall be as follows:

Type of Securities		Market Price	The rate by which the market price is to be multiplied
Japanese Government Bonds	Whose Reference Statistical Prices for OTC Bond Transactions are published by the Japan Securities Dealers Association	Average of the relevant Reference Statistical Prices for OTC Bond Transactions	(1) Interest-bearing government bond and discount government bond (excluding government bond with floating rate and STRIPs) <ul style="list-style-type: none"> <li>a Years to maturity of less than 1 year 99%</li> <li>b Years to maturity over 1 year and less than 5 years 97%</li> <li>c Years to maturity over 5 year and less than 10 years 97%</li> <li>d Years to maturity over 10year and less than 20 years 97%</li> <li>e Years to maturity over 20 year and less than 30 years 94%</li> <li>f Years to maturity over 30 years 92%</li> </ul>
	Which are listed on a domestic Financial Instruments Exchange, but whose Reference Statistical Prices for OTC Bond Transactions are not published	The closing price (* 1) at the Financial Instruments Exchange (* 2)	(2) Government bond with floating rate <ul style="list-style-type: none"> <li>a Years to maturity of less than 1 year 99%</li> <li>b Years to maturity over 1 year and less than 5 years 99%</li> <li>c Years to maturity over 5 year and less than 10 years 99%</li> <li>d Years to maturity over 10 year and less than 20 years 99%</li> </ul> (3) STRIPs

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Rules on Margins, etc. for Futures and Option Contracts

			<ul style="list-style-type: none"> <li>a Years to maturity of less than 1 year 99%</li> <li>b Years to maturity over 1 year and less than 5 years 97%</li> <li>c Years to maturity over 5 year and less than 10 years 97%</li> <li>d Years to maturity over 10year and less than 20 years 97%</li> <li>e Years to maturity over 20 year and less than 30 years 94%</li> <li>f Years to maturity over 30 years 90%</li> </ul>
<p>Bonds guaranteed by the Japanese Government</p> <p>Yen denominated bonds which are the bonds stipulated in Article 2-11 of the Enforcement Ordinance of the Financial Instruments and Exchange Act (*3)</p>	<p>Whose Reference Statistical Prices for OTC Bond Transactions are published by the Japan Securities Dealers Association</p>	<p>Average of the relevant Reference Statistical Prices for OTC Bond Transactions</p>	<ul style="list-style-type: none"> <li>(1) Years to maturity of less than 1 year 99%</li> <li>(2) Years to maturity over 1 year and less than 5 years 97%</li> <li>(3) Years to maturity over 5 year and less than 10 years 97%</li> <li>(4) Years to maturity over 10year and less than 20 years 96%</li> <li>(5) Years to maturity over 20 year and less than 30 years 93%</li> <li>(6) Years to maturity over 30 years 91%</li> </ul>
	<p>Which are listed on a domestic Financial Instruments Exchange, but whose Reference Statistical Prices for OTC Bond Transactions are not published</p>	<p>The closing price (*1) in the Financial Instruments Exchange (*2)</p>	
<p>Foreign Government Bonds</p>	<p>U.S. Treasury Bonds/Notes/Bills</p>	<p>The last quote in the New York market on the immediately preceding day</p>	<ul style="list-style-type: none"> <li>(1) Years to maturity of less than 1 year 95%</li> <li>(2) Years to maturity over 1 year and less than 5 years 94%</li> <li>(3) Years to maturity over 5 year and less than 10 years 92%</li> <li>(4) Years to maturity over 10 year and less than 20 years 90%</li> <li>(5) Years to maturity over 20 year and less than 30 years 88%</li> <li>(6) Years to maturity over 30 years 88%</li> </ul>
	<p>GBP denominated bonds issued by the United Kingdom of Great Britain and Northern Ireland</p>	<p>The last quote in the London market on the immediately preceding day</p>	<ul style="list-style-type: none"> <li>(1) Years to maturity of less than 1 year 94%</li> <li>(2) Years to maturity over 1 year and less than 5 years 92%</li> <li>(3) Years to maturity over 5 year and less than 10 years 90%</li> <li>(4) Years to maturity over 10 year and less than 20 years 88%</li> <li>(5) Years to maturity over 20 year and less than 30 years 86%</li> <li>(6) Years to maturity over 30 years 85%</li> </ul>

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Rules on Margins, etc. for Futures and Option Contracts

	EUR denominated bonds issued by Federal Republic of Germany	The last quote in the Frankfurt market on the immediately preceding day	(1) Years to maturity of less than 1 year 95% (2) Years to maturity over 1 year and less than 5 years 93% (3) Years to maturity over 5 year and less than 10 years 92% (4) Years to maturity over 10 year and less than 20 years 89% (5) Years to maturity over 20 year and less than 30 years 88% (6) Years to maturity over 30 years 85%
	EUR denominated bonds issued by French Republic	The last quote in the Paris market on the immediately preceding day	(1) Years to maturity of less than 1 year 95% (2) Years to maturity over 1 year and less than 5 years 93% (3) Years to maturity over 5 year and less than 10 years 91% (4) Years to maturity over 10 year and less than 20 years 88% (5) Years to maturity over 20 year and less than 30 years 84% (6) Years to maturity over 30 years 85%
Municipal bonds (* 3)	Whose Reference Statistical Prices for OTC Bond Transactions are published by the Japan Securities Dealers Association	Average of the relevant Reference Statistical Prices for OTC Bond Transactions	(1) Years to maturity of less than 1 year 99% (2) Years to maturity over 1 year and less than 5 years 97% (3) Years to maturity over 5 year and less than 10 years 96% (4) Years to maturity over 10year and less than 20 years 92% (5) Years to maturity over 20 year and less than 30 years 88% (6) Years to maturity over 30 years 88%
	Which are listed on a domestic Financial Instruments Exchange, but whose Reference Statistical Prices for OTC Bond Transactions are not published	The closing price (* 1) in the Financial Instruments Exchange (* 2)	

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Rules on Margins, etc. for Futures and Option Contracts

<p>Special bonds (excluding bonds guaranteed by the Japanese Government)(* 4)</p> <p>Corporate Bonds (excluding bonds with stock acquisition rights and Exchangeable Corporate Bonds) (* 3) (* 4)</p>	<p>Whose Reference Statistical Prices for OTC Bond Transactions are published by the Japan Securities Dealers Association</p>	<p>Average of the relevant Reference Statistical Prices for OTC Bond Transactions</p>	<p>(1) Years to maturity of less than 1 year 99%</p> <p>(2) Years to maturity over 1 year and less than 5 years 97%</p> <p>(3) Years to maturity over 5 year and less than 10 years 96%</p> <p>(4) Years to maturity over 10year and less than 20 years 92%</p> <p>(5) Years to maturity over 20 year and less than 30 years 88%</p> <p>(6) Years to maturity over 30 years 86%</p>
<p>Yen-denominated bonds issued by foreign juridical persons (<i>SAMURAI Bonds</i>) (excluding Yen denominated bonds which are the bonds stipulated in Article 2-11 of the Enforcement Ordinance of the Financial Instruments and Exchange Act, Convertible Bonds and Exchangeable Corporate Bonds (* 3) (* 4)</p>	<p>Whose Reference Statistical Prices for OTC Bond Transactions are published by the Japan Securities Dealers Association</p>	<p>Average of the relevant Reference Statistical Prices for OTC Bond Transactions</p>	<p>(1) Years to maturity of less than 1 year 99%</p> <p>(2) Years to maturity over 1 year and less than 5 years 97%</p> <p>(3) Years to maturity over 5 year and less than 10 years 96%</p> <p>(4) Years to maturity over 10year and less than 20 years 93%</p> <p>(5) Years to maturity over 20 year and less than 30 years 93%</p> <p>(6) Years to maturity over 30 years 93%</p>
<p>Beneficiary securities of public and corporate bond investment trusts(* 6)</p>	<p>Whose market prices on the preceding day are published by the Investment Trusts Association Japan</p>	<p>Applicable market price</p>	<p>85/100</p>

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Rules on Margins, etc. for Futures and Option Contracts

<p>Convertible Bonds (* 3) (* 5) (* 6)</p> <p>Exchangeable Corporate Bonds (* 3) (* 6)</p>	<p>Which are listed on a domestic Financial Instruments Exchange</p>	<p>The closing price (* 1) in the Financial Instruments Exchange (* 2)</p>	<p>80/100</p>
<p>Stocks</p> <p>Preferred equity capital contribution securities</p> <p>Depository receipts for foreign stocks</p> <p>Beneficiary securities of foreign investment trusts</p> <p>Foreign investment securities</p> <p>Beneficiary securities of beneficiary securities issuing trust</p> <p>Beneficiary securities of foreign beneficiary securities issuing trust</p>	<p>Which are listed on a domestic Financial Instruments Exchange</p>	<p>The closing price (* 1) in the Financial Instruments Exchange(* 2)</p>	<p>70/100</p>
<p>Beneficiary securities of investment trusts (excluding beneficiary securities of public and corporate bond investment trusts)</p> <p>Investment securities</p>	<p>Which are listed on a domestic Financial Instruments Exchange</p> <p>Whose market prices on the preceding day are published by the Investment Trusts Association Japan(* 6)</p>	<p>The closing price (* 1) in the Financial Instruments Exchange (* 2)</p> <p>Applicable market price</p>	

(\* 1) With respect to an issue that is listed on multiple Financial Instruments Exchanges, referring to the Financial Instruments Exchange selected in accordance with the

order of priority prescribed by JSCC.

- (\*2) In the case where a final quote is posted in the applicable Financial Instruments Exchange, the closing price refers to such final quote.
- (\*3) Limited to those with respect to which an underwriting contract is executed by a Financial Instruments Business Operator in connection with their issuance.
- (\*4) With respect to Special bonds<sup>\*1</sup>, Corporate Bonds<sup>\*2</sup> and Yen-denominated bonds issued by foreign juridical persons (*SAMURAI Bonds*)<sup>\*3</sup>, limited to those deemed appropriate by JSCC taking the issuing company's creditworthiness and other circumstances into account (e.g. all ratings obtained from Eligible Rating Agencies<sup>\*4</sup> are A or above, etc.).
  - (\*<sup>1</sup> excluding bonds guaranteed by the Japanese Government)
  - (\*<sup>2</sup> excluding bonds with stock acquisition rights and Exchangeable Corporate Bonds)
  - (\*<sup>3</sup> excluding Yen denominated bonds which are the bonds stipulated in Article 2-11 of the Enforcement Ordinance of the Financial Instruments and Exchange Act, Convertible Bonds and Exchangeable Corporate Bonds)
  - (\*<sup>4</sup> referring to the Credit Rating Agencies stipulated in Paragraph 36 of Article 2 of the Act and the Specified Related Corporations stipulated in Paragraph 2 of Article 116-3 of the Ordinance of Cabinet Office Concerning Financial Instruments Business, etc. (Ordinance of Cabinet Office No. 52 of 2007).)
- (\*5) With respect to Convertible Bonds, limited to those issued by the corporations whose stocks are listed on domestic Financial Instruments Exchanges.
- (\*6) To be excluded from the scope of the eligible securities in lieu of cash for Clearing Participant's Proprietary Margin and Affiliate's Margin.

3 With respect to the order of priority prescribed by JSCC referenced in the provisions of the preceding Paragraph, the Financial Instruments Exchange with the highest selling/buying volume<sup>\*1</sup> of the relevant issue among the Financial Instruments Exchanges: during July through December of the preceding year in the case where the day which is two days before the day of delivery or the day of deposit occurs during February through July; or during January through June in the case where the day which is two days before the day of delivery or the day of deposit occurs during August through January in the following year, shall be in the first priority position, and the subordinating priority shall be in accordance with the order of the code<sup>\*2</sup> of the Exchanges, Industry Groups, etc.

(\*<sup>1</sup> limited to the selling/buying volume pertaining to the Regular Transactions<sup>\*1-1</sup> during trading sessions)

(\*<sup>1-1</sup> referring to the Regular Transactions prescribed by each Financial Instruments Exchange)

(\*<sup>2</sup> referring to the code prescribed by the Securities Identification Code Committee)

=End=

*<Appendix 2> Table Concerning Calculation of Risk Amount Exceeding Collateral for each Account set forth in Article 46-3 and Article 46-4 of Business Rules*

The Risk Amount Exceeding Collateral for each account set forth in Article 46-3 and Article 46-4 of the Business Rules shall be the amount obtained according to the below formula at each calculation timing and for each Position as commissioned by a customer or under a commission of Brokerage for Clearing of Securities, etc. of a Non-Clearing Participant in one account — the terms used in the formula shall have the meanings set forth in a. through c. below:

Risk Amount Exceeding Collateral

= Recalculated Risk Amount for an Account + Value Equivalent to Differences Pertaining to Futures Contracts and Value Equivalent to Option Contract Price for an Account – Deposited Amount of Margin for an Account

a. Recalculated Risk Amount for an Account shall be the amount obtained for each account by below formula:

(a) When the account falls under Item (2) b. of Article 46-3, Item (3) b. of Article 46-3, Item (1) of Article 46-4 or Item (2) b. of Article 46-4:

Recalculated Risk Amount for an Account = SPAN Margin for an Account – Aggregate Net Option Value for an Account

(Note 1) SPAN Margin for an Account means the amount of Margin calculated through SPAN for Position\*<sup>1</sup> on the account related to Futures and Option Contracts at the time of calculation.

(\*<sup>1</sup> other than Position that became subject to the Cross Margining Request on the applicable Trading Day)

(Note 2) Aggregate Net Option Value for an Account means the amount obtained by subtracting the aggregate short option value on the account from the aggregate long option value on the account as of the time of calculation.

(b) When the account falls under Item (2) a. of Article 46-3, Item (3) a. of Article 46-3 or Item (2) a. of Article 46-4:

Recalculated Risk Amount for an Account = Amount Required for Margin Notified on Previous Trading Day + Risk Fluctuation Equivalent

(Note 1) Amount Required for Margin Notified on Previous Trading Day means the amount notified by JSCC to the Clearing Participant as the amount required for Margin for an account on the previous Trading Day pursuant to the provisions of Paragraph 2 of Article 24-2.

(Note 2) Risk Fluctuation Equivalent means the amount obtained by subtracting SPAN Margin for an account calculated pursuant to the provisions of a. (a)

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Rules on Margins, etc. for Futures and Option Contracts on the previous Trading Day from the SPAN Margin for an account as of the calculation timing calculated pursuant to the provisions of a. (a); provided that if the resultant value becomes negative, such amount shall be deemed to be zero.

- b. Value Equivalent to Differences Pertaining to Futures Contracts and Value Equivalent to Option Contract Price for an Account means the Value Equivalent to Differences Pertaining to Futures Contracts and Value Equivalent to Option Contract Price for an account at the calculation timing.
- c. Deposited Amount of Margin for an Account means the sum of the amount of money and the mark to market value of the securities deposited as Margin for an account at the calculation timing.

# Rules on Required Amount of Clearing Fund



**Japan Securities Clearing Corporation**

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This English translation of the Rules has been prepared solely for reference purposes and shall not have any binding force. The original Japanese text shall be definitive when construing or interpreting the meaning of any provision.

**Rules on Required Amount of Clearing Fund**

**(In effect as of February 13, 2018)**

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***<Appendix> Table Concerning Calculation of Required Amount of Clearing Fund***

(Article 1 Purpose)

These Rules set forth the required amount of clearing fund in accordance with the provisions of Article 16 of the Business Rules.

(Article 2 Required Amount of Clearing Fund)

1 The required amount of clearing fund in respect of each category of Clearing Qualification, in accordance with the provisions of Article 16 of the Business Rules, shall be determined in accordance with *Appendix "Table Concerning Calculation of Required Amount of Clearing Fund."*

2 Notwithstanding the provisions of the preceding Paragraph, the required amount of clearing fund that is to be deposited in respect of each category of Clearing Qualification by an entity that has newly obtained Clearing Qualification shall be the amount determined by JSCC, on a case-by-case basis taking into account such information as (i) the scale of the business of the relevant applicant for Clearing Qualification, (ii) its trading record and trading prospects, and (iii) the amount of money obtained by dividing the sum total of the required amount of clearing fund in respect of Clearing Qualification for each Clearing Participant with the same Clearing Qualification as that of the date on which applications for Clearing Qualification were submitted by the number of such Clearing Participants, and such required amount of clearing fund shall be applied for the period JSCC deems necessary.

3 JSCC shall calculate the required amount of clearing fund of each Clearing Participant in respect of Securities Clearing Qualification and FX Clearing Qualification monthly as of the end of the previous month as a base date for calculation of the required amount of clearing fund for securities and FX and notify each Clearing Participant thereof on the fourth day<sup>\*1</sup> of the month.

(\*1 excluding Non-business Days; the same applies hereinafter when counting the number of days)

4 The required amount of clearing fund of each Clearing Participant related to Securities Clearing Qualification and FX Clearing Qualification calculated in accordance with the preceding paragraph shall be applied as from the fifth day of the month.

5 JSCC shall calculate the required amount of clearing fund of each Clearing Participant in respect of JGB Futures Clearing Qualification and Index Futures Clearing Qualification as of the day that is seven (7) days preceding the last business day of each week (inclusive)<sup>\*1</sup> as a base date for calculation of required amount of clearing fund for futures and option and notify each Clearing Participant thereof on the fifth day from and after the base date for calculation of the required amount of clearing fund for futures and option (inclusive).

(\*1 excluding Non-business Days)

6 The required amount of clearing fund for each Clearing Participant related to JGB Futures Clearing Qualification and Index Futures Clearing Qualification obtained as per the

provisions of the preceding Paragraph shall start to apply from the day that is sixth day from and after the base date for calculation of the required amount of clearing fund for futures and option (inclusive).

- 7 The amount determined by JSCC as set forth in Paragraph 3 of Article 16 of the Business Rules shall be the sum total of the amount\*<sup>1</sup> obtained by respectively deducting 1 billion yen from the amount required for clearing fund for each category of the Clearing Qualification and dividing such value by 2; provided that if the resultant value is negative, then such amount shall be deemed to be zero.

(\*1 if there is any fraction less than whole yen amount, it shall be rounded upwards)

(Article 3 Ad Hoc Change of Required Amount of Clearing Fund)

Notwithstanding the provisions of the preceding Article, in the case where a Clearing Participant merges, a Clearing Participant newly becomes a Designated Clearing Participant of a Non-Clearing Participant or JSCC otherwise determines it necessary to do so, the required amount of clearing fund by each category of the Clearing Qualification for the relevant Clearing Participant may be changed on an ad hoc basis.

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Supplementary Provisions

- 1 These Rules shall come into effect on January 10, 2003.
- 2 With respect to the calculation of the base amount of domestic stock, etc. for the period ending on or before January 10, 2003, the words “Contracts for Clearing” in the *Appendix* shall be deemed to be “buying/selling”.
- 3 Notwithstanding the provisions of Paragraph 2 of Article 2, the required amount of clearing fund for securities transactions applied to an entity that obtains Principal Clearing Qualification on January 14, 2003, shall be in accordance with the provisions of Paragraph 1 of Article 2.

Supplementary Provisions

- 1 These revised Rules shall come into effect on February 2, 2004.
- 2 Notwithstanding the provisions of Paragraph 3 of Article 2, the required amount of clearing fund for Share Option Contracts, JGB Futures Contracts or Stock Price Index Futures Contracts applied to an entity that obtains Share Option Clearing Qualification, JGB Futures Clearing Qualification or Stock Price Index Futures Clearing Qualification\*<sup>1</sup> on February 2, 2004, shall be in accordance with the provisions of Paragraph 1 of Article 2.  
(\*<sup>1</sup> limited to Principal Clearing Qualification in respect of each category of Clearing Qualification)

Supplementary Provisions

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

Supplementary Provisions

These revised Rules shall come into effect on July 3, 2006.

Supplementary Provisions

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

Supplementary Provisions

These revised Rules shall come into effect on July 7, 2008.

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Supplementary Provisions

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

Supplementary Provisions

These revised Rules shall come into effect on December 1, 2012.

Supplementary Provisions

- 1 These revised Rules shall come into effect on July 16, 2013 except the revised provisions of Article 2 and Appendix 1 which shall come into effect on July 12, 2013.
- 2 The required amount of clearing fund in respect of JGB Futures Clearing Qualification, Index Futures Clearing Qualification or FX Clearing Qualification applicable until February 6, 2014 shall be calculated in accordance with Appendix 1, wherein the unsettled contracts between Osaka Securities Exchange Co., Ltd.\*<sup>1</sup> and a clearing participant of OSE, the payment amount of differences, margins deposited with OSE by a clearing participant of OSE and required amount of margins are deemed as the Unsettled Contracts between JSCC and a Clearing Participant, the payment amount of differences, Margins deposited with JSCC by a Clearing Participant and required amount of Margins, respectively.  
(\*<sup>1</sup> hereinafter referred to as "OSE")

Supplementary Provisions

These revised Rules shall come into effect on September 9, 2013.

Supplementary Provisions

These revised Rules shall come into effect on January 6, 2014.

Supplementary Provisions

These revised Rules shall come into effect on February 28, 2014.

Supplementary Provisions

- 1 These revised Business Rules shall come into effect on March 24, 2014.
- 2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC

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deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than March 24, 2014.

Supplementary Provisions

These revised Rules shall come into effect on September 24, 2015.

Supplementary Provisions

- 1 These revised Business Rules shall come into effect on October 13, 2015.
- 2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than October 13, 2015.

Supplementary Provisions

- 1 These revised Rules shall come into effect on January 8, 2016.
- 2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business shall come into effect on the day set by JSCC which is not earlier than January 8, 2016.

Supplementary Provisions

These revised Rules shall come into effect on August 10, 2016, and shall apply from the required amount of clearing fund for each Clearing Participant related to JGB Futures Clearing Qualification and Index Futures Clearing Qualification to be calculated on this date as the base date for calculation of the required amount of clearing fund for futures and option.

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Supplementary Provisions

- 1 These revised Rules shall come into effect on February 13, 2018; provided that the provisions of Paragraph 7 of Article 2 shall come into effect on February 9, 2018.
- 2 Notwithstanding the provisions of the preceding Paragraph, except for the revised provisions of Paragraph 7 of Article 2, in the case where JSCC deems it inappropriate for the revised Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business shall come into effect on the day set by JSCC which is not earlier than February 14, 2018.
- 3 Notwithstanding the provisions of the preceding two Paragraphs, in respect of Base PML Amounts<sub>JGB</sub> set forth in (Note 1-1-2) of Paragraph 2, A) of Appendix, Base PML Amount<sub>IDX</sub> set forth in (Note 1-1-1) of Paragraph 3, A) of Appendix, Individual Company Prorated Base IM Amount<sub>JGB</sub> set forth in Paragraph 2, B) of Appendix and Individual Company Prorated Base IM Amount<sub>IDX</sub>, as revised, for the Unsettled Contracts before the revised Rules come into effect, the rules before revision shall apply.

## &lt;Appendix&gt; Table Concerning Calculation of Required Amount of Clearing Fund

1 Required Amount of Clearing Fund for Securities Clearing Qualification\*<sup>1</sup>

(\*<sup>1</sup> hereinafter referred to as "Required Amount of Clearing Fund for Securities Clearing")

The Required Amount of Clearing Fund for Securities Clearing shall be the amount calculated in accordance with the formula set forth below; provided, however, that if such amount is less than 10 million yen, the Required Amount of Clearing Fund for Securities Clearing shall be 10 million yen — the terms used in the formula shall have the meanings set forth in A) through C) below:

Required Amount of Clearing Fund for Securities Clearing

= Aggregate Securities Clearing Fund

x Individual Company Prorated Base Initial Margin Requirement

/ Total Prorated Base Initial Margin Requirement

A) Aggregate Securities Clearing Fund means the average of daily largest risk amount exceeding collateral during the calculation period\*<sup>1</sup>

(\*<sup>1</sup> referring to a period of 6 months preceding the base date for calculation of required amount of clearing fund for securities and FX; the same applies in Paragraph 4)

(Note 1) Daily largest risk amount exceeding collateral means the total of the Risk Amounts Exceeding Collateral of the top 2 Clearing Participants in terms of the Clearing Participant's Risk Amount Exceeding Collateral\*<sup>1</sup>

(\*<sup>1</sup> or, if any Affiliated Company\*<sup>1-1</sup> also is a Clearing Participant, the sum of Risk Amount Exceeding Collateral of the Clearing Participant and such Affiliated Company)

(\*<sup>1-1</sup> referring to the Affiliated Company defined in Paragraph 5 of Article 8 of the Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc. (Ministry of Finance Order No. 59 of 1963) and the Associated Company defined in Paragraph 8 of Article 8 of the said Ordinance)

(Note 1-1) Risk Amount Exceeding Collateral means the amount obtained by subtracting the required amount of initial margin\*<sup>1</sup> of the relevant Clearing Participant calculated in accordance with the provisions of Article 15-2 of the Business Rules on the day preceding the date on which the Risk Amount Exceeding Collateral is calculated from the loss expected to arise from the Unsettled Contracts of the Clearing Participant under the stress scenario\*<sup>2</sup>.

(\*<sup>1</sup> or, if the required amount of initial margin (the intraday amount) is

Rules on Required Amount of Clearing Fund

calculated pursuant to the provisions of Article 15-3 of the Business Rules on the day on which the Risk Amount Exceeding Collateral is calculated and the amount obtained by subtracting the required amount of initial margin on the day preceding the date on which the Risk Amount Exceeding Collateral is calculated from the required amount of initial margin (the intraday amount) so calculated exceeds 30 million yen, then the required amount of initial margin (the intraday amount))

(\*<sup>2</sup> referring to a combination of price fluctuations prescribed by JSCC as an extreme but plausible market condition)

B) Individual Company Prorated Base Initial Margin Requirement means the daily average of the required amount of initial margin for Securities Clearing Qualification of the relevant Clearing Participant\*<sup>1</sup> during the month in which the base date for calculation of required amount of clearing fund for securities and FX belongs.

(\*<sup>1</sup> limited to the required amount calculated in accordance with the provisions of Article 15-2 of the Business Rules)

C) Total Prorated Base Initial Margin Requirement means the daily average of the aggregated required amount of initial margin for Securities Clearing Qualification\*<sup>1</sup> of all Clearing Participants during the month in which the base date for calculation of required amount of clearing fund for securities and FX belongs.

(\*<sup>1</sup> limited to the required amount calculated in accordance with the provisions of Article 15-2)

2 Required Amount of Clearing Fund for JGB Futures Clearing Qualification\*<sup>1</sup>

(\*<sup>1</sup> hereinafter referred to as "Required Amount of Clearing Fund for JGB Futures")

Required Amount of Clearing Fund for JGB Futures shall be the amount calculated in accordance with the formula set forth below; provided, however, that if such amount is less than 10 million yen, Required Amount of Clearing Fund for JGB Futures shall be 10 million yen — the terms used in the formula shall have the meanings set forth in A) through C) below.

Required Amount of Clearing Fund for JGB Futures

= Period Largest Base PML Amount<sub>JGB</sub>

x Individual Company Prorated Base IM Amount<sub>JGB</sub>

/ Total Prorated Base IM Amounts<sub>JGB</sub>

A) Period Largest Base PML Amount<sub>JGB</sub> means the largest amount during the Calculation Period<sup>\*1</sup> of Daily Largest Base PML Amount<sub>JGB</sub>.

(\*1 meaning six (6) months period preceding the base date for calculation of required amount of clearing fund for futures and option; the same applies in the following Paragraph)

(Note 1) Daily Largest Base PML Amount<sub>JGB</sub> refers to the largest of the Largest Base PML Amounts<sub>JGB</sub> per Stress Scenario on each day.

(Note 1-1) Largest Base PML Amount<sub>JGB</sub> per Stress Scenario refers to the total sum of Base PML Amounts<sub>JGB</sub> of the Clearing Participant<sup>\*1</sup> whose Base PML Amount<sub>JGB</sub> becomes the largest in each stress scenario and Base PML Amounts<sub>JGB</sub> in such stress scenario of five (5) Clearing Participants with the lowest amounts of net worth<sup>\*2</sup>.

(\*1 if any subsidiary or affiliate, or the parent company of such Clearing Participant, or any subsidiary or affiliate of the parent company ("Affiliated Company") also is a Clearing Participant, the sum of Base PML Amounts<sub>JGB</sub> of the Clearing Participant and such Affiliated Company)

(\*2 in the case of a Registered Financial Institution and a Securities Finance Company, the amount of its net assets; the same applies hereinafter in this Appendix)

(Note 1-1-1) The stress scenario refers to a combination of price fluctuation and volatility variation prescribed by JSCC as extreme but plausible market condition; the same applies hereinafter in this Appendix.

(Note 1-1-2) Base PML Amount<sub>JGB</sub> shall be sum total of the amount<sup>\*1</sup> obtained, in respect of each account<sup>\*2</sup> related to JGB Futures Clearing Qualification, by subtracting the amount equivalent to the amount required for Margin related to the JGB Futures Clearing Qualification<sup>\*3</sup> from the loss amount arising from the Unsettled Contracts<sup>\*4</sup> under the stress scenarios.

(\*1 positive value only, for accounts other than the account set forth in Item (1) of Article 46-3 of the Business Rules)

(\*2 referring to each account set forth in Article 46-3 and Article 46-4 of the Business Rules)

(\*3 referring to the amount equivalent to the amount required for Margin calculated for Position by each category of the Clearing Qualification; the same applies hereinafter)

B) (\*4 excluding those subject to Cross Margined JGB Futures Cleared Contract at the time of calculation) Individual Company Prorated Base IM Amount<sub>JGB</sub> means the average of the aggregate of the amount equivalent to the amount required for the Margin<sup>\*1</sup> of each Clearing Participant in relation to JGB Futures Clearing Qualification on each Trading Day during the one month period preceding the base date for calculation of required amount of clearing fund for futures and option.

(\*<sup>1</sup> referring to the total sum of the amount equivalent to the amount required for the Margin related to JGB Futures Clearing Qualification for accounts set forth in Article 46-3 and Article 46-4 of the Business Rules that are managed by each Clearing Participant)

- C) Total Prorated Base IM Amounts<sub>JGB</sub> means the sum total of the Individual Company Prorated Base IM Amounts<sub>JGB</sub> set forth in B) above of all the JGB Futures Clearing Participants.

### 3 Required Amount of Clearing Fund for Index Futures Clearing Qualification\*<sup>1</sup>

(\*<sup>1</sup> hereinafter referred to as the “Required Amount of Clearing Fund for Index Futures”)

Required Amount of Clearing Fund for Index Futures shall be the amount calculated in accordance with the formula set forth below; provided, however, that if such amount is less than 10 million yen, Required Amount of Clearing Fund for Index Futures shall be 10 million yen — the terms used in the formula shall have the meanings set forth in A) through C) below.

Required Amount of Clearing Fund for Index Futures

$$\begin{aligned} &= \text{Period Largest Base PML Amount}_{\text{IDX}} \\ &\quad \times \text{Individual Company Prorated Base IM Amount}_{\text{IDX}} \\ &\quad / \text{Total Prorated Base IM Amounts}_{\text{IDX}} \end{aligned}$$

- A) Period Largest Base PML Amount<sub>IDX</sub> means the largest amount during the Calculation Period of Daily Largest Base PML Amount<sub>IDX</sub>.

(Note 1) Daily Largest Base PML Amount<sub>IDX</sub> refers to the largest of the Largest Base PML Amounts<sub>IDX</sub> per Stress Scenario on each day.

(\*<sup>1</sup> if any subsidiary or affiliate, or the parent company of such Clearing Participant, or any subsidiary or affiliate of the parent company (“Affiliated Company”) also is a Clearing Participant, the sum of Base PML Amounts<sub>IDX</sub> of the Clearing Participant and such Affiliated Company)

(Note 1-1) Largest Base PML Amount<sub>IDX</sub> per Stress Scenario refers to the total sum of Base PML Amounts<sub>IDX</sub> of the Clearing Participant whose Base PML Amount<sub>IDX</sub> becomes the largest in each stress scenario and Base PML Amounts<sub>IDX</sub> in such stress scenario of five (5) Clearing Participants with the lowest amounts of net worth.

(Note 1-1-1) Base PML Amount<sub>IDX</sub> shall be sum total of the amount\*<sup>1</sup> obtained, in respect of each account\*<sup>2</sup> related to Index Futures Clearing Qualification, by subtracting the amount equivalent to the amount required for Margin related to the Index Futures Clearing Qualification from the loss amount arising from the Unsettled Contracts under the stress scenarios.

(\*<sup>1</sup> positive value only, for accounts other than the account set forth in Item (1) of Article

46-3 of the Business Rules)

(\*<sup>2</sup> referring to each account set forth in Article 46-3 and Article 46-4 of the Business Rules)

B) Individual Company Prorated Base IM Amount<sub>IDX</sub> means the average of the aggregate of the amount equivalent to the amount required for the Margin<sup>\*1</sup> of each Clearing Participant in relation to Index Futures Clearing Qualification on each Trading Day during the one month period preceding the base date for calculation of required amount of clearing fund for futures and option.

(\*<sup>1</sup>referring to the total sum of the amount equivalent to the amount required for the Margin related to Index Futures Clearing Qualification for accounts set forth in Article 46-3 and Article 46-4 of the Business Rules that are managed by each Clearing Participant)

C) Total Prorated Base IM Amounts<sub>IDX</sub> means the sum total of the Individual Company Prorated Base IM Amounts<sub>IDX</sub> set forth in B) above of all Index Futures Clearing Participants.

#### 4 Required Amount of Clearing Fund for FX Clearing Qualification<sup>\*1</sup>

(\*<sup>1</sup> hereinafter referred to as the "Required Amount of FX Clearing Fund")

Required Amount of FX Clearing Fund shall be the amount calculated in accordance with the formula set forth below; provided, however, that if such amount is not equal to the integral multiple of 1,000,000 yen, it shall be the integral multiple of 1,000,000 yen exceeding such amount which is the smallest. — the terms used in the formula shall have the meanings set forth in A) through C) below.

Required Amount of FX Clearing Fund

= Period Largest Base PML Amount<sub>FX</sub>

x Individual Company Prorated Base IM Amount<sub>FX</sub>

/ Total Prorated Base IM Amounts<sub>FX</sub>

A) Period Largest Base PML Amount<sub>FX</sub> means the largest of the Daily PML Base Amount during the Calculation Period.

(Note 1) Daily PML Base Amount means the smallest amount which can cover 99.74% of the amount of expected losses of the top two companies on each day during the Expected Price Fluctuation Reference Period.

(Note 1-1) Expected Price Fluctuation Reference Period means the past twenty years from a certain Trading Day.

(Note 1-2) The amount of expected losses of the top two companies means the total sum of the Daily Expected Loss Amounts of two companies whose Daily Expected Loss

Amount on each day during the Expected Price Fluctuation Reference Period ranked top two.

(Note 1-2-1) Daily Expected Loss Amount means, on each day during the Expected Price Fluctuation Reference Period, the amount equal to valuation loss<sup>\*1</sup> of each FX Clearing Participant arising in the event of Expected Price Fluctuation, less Deposited Amount of Margins of Exchange FX Contracts.

(\*1referring to the payment amount of such FX Clearing Participant among the total sum of the differences<sup>\*1-1</sup> arising from the Positions held by such FX Clearing Participants on such Trading Day)

(\*1-1referring to the money prescribed in Article 73-34, 73-35 and 73-37 of the Business Rules)

(Note 1-2-1-1) Expected Price Fluctuation means the fluctuation range of each Financial Index obtained by multiplying the Settlement Price of respective Financial Index on each day during the Expected Price Fluctuation Reference Period by the three-day volatility for each such Financial Index<sup>\*1</sup>

(\*1referring to the differences between the Settlement Price for each Financial Index on each such day and the Settlement Price for each Financial Index on the day that is three Trading Days prior to such day, divided by the Settlement Price for the Financial Index on the day that is three Trading Days prior to such day)

(Note 1-2-1-2) Deposited Amount of Margins of Exchange FX Contracts means total sum of the amount of cash deposited with JSCC by such FX Clearing Participant as Margin for Exchange FX Contracts for its proprietary account on such Trading Day, and the required amount of Margins for customer accounts and those pertaining to the Brokerage for Clearing of Securities, etc. notified to JSCC by the FX Clearing Participant on such Trading Day in accordance with the provisions of Paragraph 1 of Article 21 of Rules on Margins, etc. for Exchange FX Contracts.

B) Individual Company Prorated Base IM Amount<sub>FX</sub> means the average of the amount required for the Margin<sup>\*1</sup> of each FX Clearing Participant applicable to each Trading Day in the month in which the base date for calculation of required amount of clearing fund for securities and FX.

(\*1referring to the total sum of the required amount of Margins for proprietary account as well as those for customer accounts and those pertaining to the Brokerage for Clearing of Securities, etc. notified to JSCC by the FX Clearing Participant in accordance with the provisions of Paragraph 1 of Article 21 of Rules on Margins, etc. for Exchange FX Contracts)

C) Total Prorated Base IM Amounts<sub>FX</sub> means the sum total of the Individual Company Prorate Base IM Amounts<sub>FX</sub> set forth in B) above of all the FX Clearing Participants.

=End=

# Disciplinary Measures Assessment Committee Rules



**Japan Securities Clearing Corporation**

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This English translation of the Rules has been prepared solely for reference purposes and shall not have any binding force. The original Japanese text shall be definitive when construing or interpreting the meaning of any provision.

**Disciplinary Measures Assessment Committee Rules**

**(In effect as of June 21, 2017)**

**Contents**

**Provisions**

**Supplementary Provisions**

## (Article 1 Purpose)

These rules set forth the matters necessary for the Disciplinary Measures Assessment Committee in accordance with the provisions of Article 33-2 of the Business Rules, Article 36 of the CDS Clearing Business Rules (hereinafter referred to as the “CDS Business Rules”), Article 36 of the Interest Rate Swap Clearing Business Rules (hereinafter referred to as the “IRS Business Rules”) and Article 33 of the Japanese Government Bond Over-the-Counter Transaction Clearing Business Rules (hereinafter referred to as the “JGB OTC Business Rules”).

## (Article 2 Establishment of Disciplinary Measures Assessment Committee)

JSCC shall establish the Disciplinary Measures Assessment Committee as an advisory committee of the board of directors of JSCC.

## (Article 3 Matters for Consultation)

1 When JSCC seeks to take the measures or make the judgements for Clearing Participants (qualified for any of Securities Clearing Qualification, JGB Futures Clearing Qualification, Index Futures Clearing Qualification, or FX Clearing Qualification prescribed in Article 5 Paragraph 2 of Business Rules, CDS Clearing Qualification prescribed in Article 2 (60) of CDS Clearing Business Rules, IRS Clearing Qualification prescribed in Article 2 (12) of Interest Rate Swap Clearing Business Rules, or JGB OTC Transaction Clearing Qualification prescribed in Article 5 Paragraph 2 of Japanese Government Bond Over-the-Counter Transaction Clearing Business Rules. The same applies hereinafter.) set forth below, JSCC shall consult with the Disciplinary Measures Assessment Committee.

(1) The measures set forth in Article 29, Article 29-2 or Article 29-3 of the Business Rules or judgement about the petition of objection set forth in Paragraph 5 of Article 14 of the Business Rules which applies *mutatis mutandis* in Article 32 of the said rules

(2) The measures set forth in Article 28, Article 30 or Article 31 of the CDS Business Rules or judgement about the petition of objection set forth in Paragraph 5 of Article 15 of the CDS Business Rules which applies *mutatis mutandis* in Article 35 of the said rules

(3) The measures set forth in Article 28, Article 30 or Article 31 of the IRS Business Rules, judgement about the petition of objection set forth in Paragraph 5 of Article 15 of the IRS Business Rules which applies *mutatis mutandis* in Article 35 of the IRS Business Rules or judgement about the cancellation of the appointment of any member of the committee as set forth in Paragraph 2 of Article 5 of the IRS Management Committee Rules (excluding those due to Default, etc. of such member of the committee having been determined or such member of the committee no longer falling under either of the categories set forth in each Item of Paragraph 1 of the said Article).

(4) The measures set forth in Article 28 of the JGB OTC Business Rules, judgement about the petition of objection set forth in Paragraph 4 of Article 13 of the JGB OTC Business Rules which applies *mutatis mutandis* in Article 31 of the JGB OTC Business Rules or judgement about the cancellation of the appointment of any member of the committee as set forth in Paragraph 3 of Article 5 of the JGB OTC Management Committee Rules (excluding those due to Default, etc. of such member of the committee having been determined or such member of the committee no longer falling under either of the categories set forth in each Item of Paragraph 1 of the said Article).

2 The provision of the preceding Paragraph shall not apply to cases where the measures prescribed in Article 29-2 of the Business Rules, Article 30 of the CDS Business Rules and Article 30 of the IRS Business Rules (limited to those in respect of contracts entered into on Participant's own account) or where there is an urgent need therefor. In this case, JSCC

Disciplinary Measures Assessment Committee Rules

shall report the details of the measures to the Disciplinary Measures Assessment Committee without delay after it takes such measures, etc.

- 3 The Disciplinary Measures Assessment Committee may, in connection with the measures or judgement prescribed in Paragraph 1 of this Article, respond to JSCC's consultation or state its opinion thereon. In such case, JSCC shall respect the opinion of the Disciplinary Measures Assessment Committee.

(Article 4 Committee Members)

- 1 The Disciplinary Measures Assessment Committee shall consist of not less than three (3) but not more than five (5) committee members.
- 2 Members of the Disciplinary Measures Assessment Committee shall be commissioned to serve by the Director and President of JSCC from persons set forth below, provided, however, that majority of the members of the Disciplinary Measures Assessment Committee is required to be the person relevant to Paragraph 2 (hereinafter referred to as "Committee Member other than Clearing Participants").
  - (1) Persons who are officers or employees engaged in ordinary affairs of Clearing Participants and who have deep insight into the matters for consultation as prescribed in the preceding Article and able to make fair judgement.
  - (2) Persons who are not officers or employees engaged in ordinary affairs of Clearing Participants and who have deep insight into the matters for consultation as prescribed in the preceding Article and able to make fair judgement.
- 3 In case where the composition of the member of the Disciplinary Measures Assessment Committee has become no longer compliant with the requirements in exceptional clause in the preceding Paragraph, the Director and President of JSCC shall commission a new member from Committee Member other than Clearing Participants without delay.
- 4 The term of office of the committee members shall be one year from the date on which he/she was commissioned to serve; provided that, when JSCC deems it necessary in light of the time of commission and other circumstances, the term of office shall be the period prescribed by JSCC, which shall not be longer than one year.

(Article 5 Committee Chairperson)

- 1 The Disciplinary Measures Assessment Committee shall be equipped with a Chairperson.
- 2 The Chairperson shall be commissioned to serve by the Director and President of JSCC from the Committee Member other than Clearing Participants.
- 3 The Chairperson shall deal with the affairs of the Committee.
- 4 When the position of Chairperson is vacant or the Chairperson is unable to act, the Committee member appointed by the chairperson in advance shall perform its duties or act on its behalf.

(Article 6 Convocation of Committee Meetings)

A meeting of the Disciplinary Measures Assessment Committee shall be convened by the Director and President of JSCC, provided, however, that it shall not preclude the convocation of a meeting by a resolution of the board of directors of JSCC.

(Article 7 Method of Holding a Meeting)

- 1 Where the Director and President or the board of directors of JSCC deem it necessary, a meeting of the Disciplinary Measures Assessment Committee may be held via telephone or other means, or a committee member may attend a meeting via telephone or other means.
- 2 Where the Director and President of JSCC or the board of directors of JSCC deems it necessary, a resolution of the Disciplinary Measures Assessment Committee may be adopted in writing in lieu of holding a meeting.

(Article 8 Method of Resolutions)

- 1 The Disciplinary Measures Assessment Committee may not start proceedings unless at least half of the committee members (excluding committee members who are not able to participate in the deliberation pursuant to the provisions of Paragraph 3 of this Article; the same applies to the following Paragraph) are in attendance.
- 2 In the proceedings of the Disciplinary Measures Assessment Committee, the majority of vote of attending members is required to pass a resolution. In case of a tie, a resolution shall be passed by the Chairperson.
- 3 A committee member may not participate in deliberations on the matter in which such committee member has special interests.

(Article 9 Hearings)

The Disciplinary Measures Assessment Committee may, when deemed necessary to make appropriate judgement on the matters for consultation prescribed in Article 3 hereof, require a Participant or witness in connection with the relevant case to attend a meeting for a hearing.

(Article 10 Committee Members' Duty of Confidentiality)

A committee member or any person who once was a committee member may not divulge to a third party or use for any other purposes any confidential information (meaning the fact which is not known to the public and entails objectively reasonable interests for not being known to others) obtained in the performance of his/her duties unless he/she is required to disclose or provide such confidential information in accordance with orders or requests from courts, supervisory authorities or other public institutions or provisions of laws and regulations, or without any other justifiable grounds.

Disciplinary Measures Assessment Committee Rules  
Supplementary Provisions

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

Supplementary Provisions

- 1 Amendment to these Rules shall be enforced from 19 July 2011.
- 2 The obligations of the committee members appointed before the amendment of these Rules shall follow the previous procedures only to the extent of the terms of such committee members.

Supplementary Provisions

Amendment to these Rules shall be enforced from 9 October 2012.

Supplementary Provisions

Amendment to these Rules shall be enforced from 1 October 2013.

Supplementary Provisions

Amendment to these Rules shall be enforced from 21 June 2017.

=End=

**COMMODITY FUTURES TRADING COMMISSION**

**SUPPLEMENT S-1 to FORM FBOT**

**CLEARING ORGANIZATION SUPPLEMENT TO  
FOREIGN BOARD OF TRADE APPLICATION FOR REGISTRATION**

**Japan Securities Clearing Corporation**

**Name of clearing organization as specified in organizational documents**

**2-1, Nihombashi-Kabuto-cho, Chuo-ku, Tokyo 103-0026, JAPAN**

**Address of principal executive office**

**Osaka Exchange, Inc.**

**Name of the foreign board of trade on associated Form FBOT**

- If this Supplement S-1 is accompanying a new application for registration, please complete in full and check here.
- If this Supplement S-1 is an amendment to a pending application for registration, or to a final application that resulted in the issuance of an Order of Registration, please list all items that are amended or otherwise updated and check here.

**(\*) Following exhibits to this Supplement S-1 including the documents attached thereto are revised due to the rule changes in connection with the replacement of the clearing systems for listed derivatives, and made other updates:**

- Exhibit A-1;**
- Exhibit C;**
- Exhibit D-1;**
- Exhibit F-1; and**
- Exhibit F-2;**

**REGISTERED DERIVATIVES CLEARING ORGANIZATIONS**

If the clearing organization is registered with the Commission in good standing as a derivatives clearing organization (DCO), please indicate by checking here:

- CFTC-registered DCO.

**If the clearing organization is registered with the Commission in good standing as a DCO, the clearing organization need not complete the remainder of the Supplement S-1.**

**GENERAL INFORMATION**

1. Name under which the business of the clearing organization will be conducted, if different than name specified above:

---

2. List of principal office(s) where clearing organization activities are/will be conducted (please use multiple entries, when applicable):

Office (name and/or location):	Head Office
Address:	2-1, Nihombashi-Kabuto-cho, Chuo-ku, Tokyo, 103-0026, Japan
Phone Number:	+81-3- 3655-1234
Fax Number:	
Website Address:	<a href="https://www.jpx.co.jp/jsc/">https://www.jpx.co.jp/jsc/</a>

3. Contact Information.

3a. Primary Contact for Supplement S-1 (i.e., the person authorized to receive Commission correspondence in connection with this Supplement S-1 and to whom questions regarding the submission should be directed):

Name:	Mr. Tetsuo Otashiro
Title:	Head, Strategic Planning Division
Email Address:	<a href="mailto:jsc-intl@jpx.co.jp">jsc-intl@jpx.co.jp</a>
Mailing Address:	2-1, Nihombashi-Kabuto-cho, Chuo-ku Tokyo, 103-0026, Japan
Phone Number:	+81-50-3361-0928
Fax Number:	

3b. If different than above, primary contact at the clearing organization that is authorized to receive all forms of Commission correspondence:

Name:	
Title:	
Email Address:	
Mailing Address:	
Phone Number:	
Fax Number:	

## BUSINESS ORGANIZATION

Japan Securities Clearing Corporation (“JSCC”) is a joint-stock corporation, having its principal office registered in Tokyo, Japan.

JSCC was established on July 1, 2002 and started its business on January 14, 2003 as Securities Clearing Organization (currently “Financial Instruments Clearing Organization”) under Japan’s Securities and Exchange Law (Law No. 25 of 1948, as amended) (currently “Financial Instruments and Exchange Act”).

Since July 16, 2013, in connection with the restructuring of functions under Japan Exchange Group, JSCC has cleared all transactions executed on the Financial Instruments Exchange Market operated by Osaka Exchange, Inc.

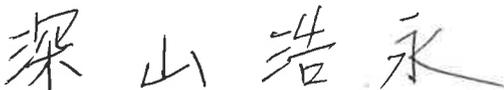
On October 26<sup>th</sup>, 2015, CFTC issued an order of exemption from registration as a derivatives clearing organization to JSCC for the clearing of Interest Rate Swaps under the terms and conditions designated in the order. Consecutively, CFTC issued an amended order of exemption from registration to expand the scope of cleared products to any swaps under CFTC jurisdiction in May 15, 2017.

## **SIGNATURES**

By signing and submitting this Supplement S-1, the clearing organization agrees to and consents that the notice of any proceeding before the Commission in connection with the associated foreign board of trade's application for registration or registration with the Commission may be given by sending such notice by certified mail or similar secured correspondence to the persons specified in sections 3a and 3b above.

Japan Securities Clearing Corporation has duly caused this Supplement S-1 to be signed on its behalf by the undersigned, hereunto duly authorized, this 3rd of July, 2018.

Japan Securities Clearing Corporation and the undersigned represent that all information and representations contained in this Supplement S-1 (and exhibits) are true, current, and complete. It is understood that all information, documentation, and exhibits are considered integral parts of this Supplement S-1. The submission of any amendment to a Supplement S-1 represents that all items and exhibits not so amended remain true, current, and complete as previously filed.



Hironaga MIYAMA

**Signature of Chief Executive Officer (or functional equivalent), on behalf of the Clearing Organization**

President & CEO

**Title**

Japan Securities Clearing Corporation

**Name of Clearing Organization**

**Paul M. Architzel**

+1 202 663 6240(t)  
+1 202 663 6363(f)  
paul.architzel@wilmerhale.com

November 27, 2017

*VIA E-MAIL*

Assistant Secretary of the CFTC  
for FOIA Matters  
Three Lafayette Center  
1155 21st Street, N.W.  
Washington, D.C. 20581

Re: Freedom of Information Act Confidential Treatment Request for

Letter Dated November 27, 2017 from Paul M Architzel to Aleko  
Stamoulis re: Application of OSE for Registration as a FBOT.  
("Confidential Information").

Dear Sir or Madam:

Osaka Exchange, Inc. (the "Requestor") hereby requests that the document referenced above, and enclosed herewith be afforded confidential treatment in accordance with the Freedom of Information Act ("FOIA"), 5 U.S.C. 552, and CFTC Rules thereunder, 17 C.F.R. 145.9, for an indefinite period of time due to the sensitive commercial and proprietary nature of the information contained therein, public disclosure of which could be detrimental to the requestor.

In accordance with the foregoing regulations, kindly notify me at the above address or at (202) 663-6240 of any request under FOIA for access to the enclosed documents to enable the requestor to substantiate the grounds for confidential treatment, or if you have any questions regarding this document.

Sincerely,  
  
Paul M. Architzel

cc: Aleko Stamoulis

**Paul M. Architzel**

+1 202 663 6240(t)  
+1 202 663 6363(f)  
paul.architzel@wilmerhale.com

January 27, 2017

*VIA E-MAIL*

Assistant Secretary of the CFTC  
for FOIA Matters  
Three Lafayette Center  
1155 21st Street, N.W.  
Washington, D.C. 20581

Re: Freedom of Information Act Confidential Treatment Request for Confidential Exhibits and Attachments to Application for Registration as a Foreign Board of Trade by Osaka Securities Exchange, Inc. submitted to the Commodity Futures Trading Commission on January 27, 2017. ("Confidential Information").

Dear Sir or Madam:

Osaka Securities Exchange, Inc. (the "Requestor") hereby requests that the documents referenced above, and enclosed herewith be afforded confidential treatment in accordance with the Freedom of Information Act ("FOIA"), 5 U.S.C. 552, and CFTC Rules thereunder, 17 C.F.R. 145.9, for an indefinite period of time due to the sensitive commercial and proprietary nature of the information contained therein, public disclosure of which could be detrimental to the requestor.

In accordance with the foregoing regulations, kindly notify me at the above address or at (202) 663-6240 of any request under FOIA for access to the enclosed documents to enable the requestor to substantiate the grounds for confidential treatment, or if you have any questions regarding this document.

Sincerely,  
  
Paul M. Architzel

cc: Aleko Stamoulis

COMMODITY FUTURES TRADING COMMISSION

FORM FBOT

FOREIGN BOARD OF TRADE APPLICATION FOR REGISTRATION (IN ORDER TO PERMIT DIRECT ACCESS TO MEMBERS AND OTHER PARTICIPANTS)

Osaka Exchange, Inc.

Name of applicant as specified in organizational documents

8-16, Kitahama 1-chome, Chuo-ku, Osaka 541-0041 JAPAN

Address of principal executive office

- If this Form FBOT is a new application for registration, complete in full and check here.
- If this Form FBOT is an amendment to a pending application or to a final application that resulted in the issuance of an Order of Registration, list and/or describe all items that are amended or otherwise updated and check here.
- (\* All Exhibits to Form FBOT, including the documents attached thereto, are replaced mainly in connection with the establishment of Japan Exchange Group and the restructuring of functions thereunder.

GENERAL INFORMATION

1. Name under which the business of the foreign board of trade will be conducted, if different than name specified above:

\_\_\_\_\_

2. List of principal office(s) where foreign board of trade activities are/will be conducted (please use multiple entries, when applicable):

Office (name and/or location):	<u>Head Office</u>
Address:	<u>8-16, Kitahama 1-chome, Chuo-ku, Osaka</u> <u>541-0041 Japan</u>
Phone Number:	<u>+81-6- 4706-0800</u>
Fax Number:	_____
Office (name and/or location):	<u>Tokyo Office</u>
Address:	<u>2-1, Nihombashi-Kabuto-cho, Chuo-ku,</u> <u>Tokyo, 103-0026, Japan</u>
Phone Number:	<u>+81-50-3377-8636</u>
Fax Number:	_____
Website Address:	<u>http://www.jpx.co.jp/english/</u>

3. Contact Information.

3a. Primary Contact for Form FBOT (i.e., the person authorized to receive Commission correspondence in connection with this Form FBOT and to whom questions regarding the submission should be directed):

Name:	<u>Taisuke Maruo</u>
Title:	<u>General Manager, Market Planning Dept.</u>
Email Address:	<u>t-maruo@jpx.co.jp</u>
Mailing Address:	<u>2-1, Nihombashi-Kabuto-cho, Chuo-ku,</u> <u>Tokyo, 103-0026, Japan</u>
Phone Number:	<u>+81-50-3377-8636</u>
Fax Number:	<u></u>

3b. If different than above, primary contact at the foreign board of trade that is authorized to receive all forms of Commission correspondence:

Name:	<u></u>
Title:	<u></u>
Email Address:	<u></u>
Mailing Address:	<u></u> <u></u> <u></u>
Phone Number:	<u></u>
Fax Number:	<u></u>

## **BUSINESS ORGANIZATION**

Osaka Exchange, Inc. (“OSE”), formerly known as “Osaka Securities Exchange Co., Ltd.”, is a joint-stock corporation, having its principal office registered in Osaka, Japan.

OSE was established on April 1, 1949, as a nonprofit membership organization under Japan’s Securities and Exchange Law (Law No. 25 of 1948, as amended) (the “Securities and Exchange Law”). The December 2000 amendment of the Securities and Exchange Law made it possible to convert a securities exchange composed of its members into a joint-stock corporation, and the OSE converted its membership organization into a joint-stock corporation on April 1, 2001.

On January 1, 2013, OSE conducted a business combination with Tokyo Stock Exchange Group, Inc., and as a result, Japan Exchange Group, Inc. (“JPX”) was established. In the process of the business combination, the former OSE implemented an “Absorption-Type Split” with new OSE, under which all businesses of the former OSE (including the exchange for derivatives products) were succeeded by new OSE, a subsidiary of JPX.

OSE is a Financial Instruments Exchange under the Financial Instruments and Exchange Act, which superseded the Securities and Exchange Law on September 30, 2007. OSE operates the Financial Instruments Exchange Market where sale and purchase of index futures, government bond futures, index options, options on government bond futures and securities options transactions are conducted. OSE has designated Japan Securities Clearing Corporation (“JSCC”) as a Financial Instruments Clearing Organization since July 16, 2013. All transactions executed on OSE markets are cleared by JSCC.

**SIGNATURES**

By signing and submitting this Form FBOT, the applicant agrees to and consents that the notice of any proceeding before the Commission in connection with the foreign board of trade's application for registration or registration with the Commission may be given by sending such notice by certified mail or similar secured correspondence to the persons specified in sections 3a and 3b above.

Osaka Exchange, Inc. has duly caused this Form FBOT to be signed on its behalf by the undersigned, hereunto duly authorized, this 27 day of January, 2017.

Osaka Exchange, Inc. and the undersigned represent that all information and representations contained herein are true, current, and complete. It is understood that all information, documentation, and exhibits are considered integral parts of this Form FBOT. The submission of any amendment to Form FBOT represents that all items and exhibits not so amended remain true, current, and complete as previously filed.



Hiromi YAMAJI  
**Signature of Chief Executive Officer (or functional equivalent), on behalf of the Foreign Board of Trade**

President & CEO  
**Title**

Osaka Exchange, Inc.  
**Name of Foreign Board of Trade**

**EXHIBIT to Form FBOT**

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\* All JPY value is converted to USD value with the rate of ¥116.49 on December 30<sup>th</sup> 2016.

## **EXHIBIT A – GENERAL INFORMATION AND DOCUMENTATION**

### **Exhibit A-1**

**Description of the following for the foreign board of trade: location, history, size, ownership and corporate structure, governance and committee structure, current or anticipated presence of offices or staff in the United States, and anticipated volume of business emanating from members and other participants that will be provided direct access to the foreign board of trade’s trading system.**

#### *History*

Osaka Exchange, Inc. (“OSE” or the “Exchange”), formerly known as “Osaka Securities Exchange Co., Ltd.”, was established on April 1, 1949, as a nonprofit membership organization under Japan’s Securities and Exchange Law (Law No. 25 of 1948, as amended) (the “Securities and Exchange Law”). Its predecessor was the Osaka Stock Exchange Co., Ltd. established in 1878. Under the Securities and Exchange Law, the establishment of a securities exchange as a joint-stock corporation was not allowed. However, pursuant to the December 2000 amendment of the Securities and Exchange Law, it became possible to convert a securities exchange composed of its members into a joint-stock corporation, and OSE converted its membership organization into a joint-stock corporation on April 1, 2001.

OSE was the first financial instruments exchange to trade equity derivatives in Japan, and currently is the largest derivatives exchange in Japan measured by trading volume and contract values. OSE is licensed to act as a financial instruments exchange by the Prime Minister of Japan under the Financial Instruments and Exchange Act (“FIEA”).<sup>1</sup> As a licensed financial instruments exchange, OSE is authorized to conduct a market for transactions in derivatives.

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<sup>1</sup> The Securities and Exchange Law was superseded by the FIEA on September 30, 2007. With that amendment, the FIEA defines as a “financial instruments exchange” entities that the Securities and Exchange Law previously defined as a “stock exchange.” This application hereinafter uses the more recent term of “financial instruments exchange” whenever referring to this type of market.

The derivatives products authorized for trading include futures and options on indexes, futures on government bond and options on government bond futures, and options on securities.<sup>2</sup>

On January 1, 2013, OSE entered into a business combination with Tokyo Stock Exchange Group, Inc., and as a result, Japan Exchange Group, Inc. (JPX) was established.<sup>3</sup> In the process of the business combination, the former OSE implemented an “Absorption-Type Split” with new OSE, under which all businesses of the former OSE (including the exchange for derivatives products) were succeeded by new OSE, a subsidiary of JPX. JPX is a holding company that conducts business management of the financial instruments exchanges and the business incidental to such management. Its subsidiary companies are OSE, Tokyo Stock Exchange (TSE), Japan Exchange Regulation (JPX-R)<sup>4</sup> and Japan Securities Clearing Corporation (JSCC). JPX is a publicly traded company. Following its establishment, JPX listed on the JASDAQ market, on which the former OSE listed, and on the first section of the TSE market. Based on the development of the listing rules in connection with the integration of cash markets between OSE and TSE, JPX is listed only on the first section of the TSE market on and after July 16, 2013.

As a result of restructuring of functions in JPX, OSE integrated cash markets with TSE and the clearing function with JSCC on July 16, 2013. Due to the integration of cash markets with TSE, securities transactions are no longer conducted on OSE, but only derivatives transactions are conducted on the OSE markets. In addition, due to the integration of the clearing function with JSCC, OSE abolished financial instruments assumption services, and derivatives transactions on the OSE markets are cleared by JSCC. Also, OSE abolished the Self-regulation Committee, and instead, has entrusted self-regulatory operations to JPX-R since July 16, 2013. As indicated in Exhibit G-3 of this submission, OSE still has responsibility for

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<sup>2</sup> Options on securities traded on OSE include options on equities, ETFs and REITs. OSE understands that of the products traded on OSE, only futures and options on futures are within the CFTC’s jurisdiction and within the scope of this Application for Registration as an FBOT.

<sup>3</sup> OSE notified the Commission of this corporate action under Commission Rule 30.13(l) by letter dated March 12, 2014.

<sup>4</sup> Its corporate name was changed from “Tokyo Stock Exchange Regulation” on April 1, 2014.

promulgating rules concerning self-regulation of its markets and taking disciplinary actions against Trading Participants, while JPX-R is responsible for, among other things, investigating potential rule violations and recommending disciplinary actions.

As the second phase in its restructuring, the derivatives markets of OSE and TSE were integrated on March 24, 2014. Following the integration, OSE became the sole surviving derivatives exchange in JPX and was the successor in interest of the derivatives markets of TSE. On the same date, the corporate name “Osaka Securities Exchange Co., Ltd.” was changed to “Osaka Exchange, Inc.”

#### *Market Size*

In contrast to TSE, which deals in spot trading, OSE is the leading exchange for derivatives products in Japan and its trading volume is the largest among the four Japanese exchanges handling derivatives products. The Nikkei 225 Futures, introduced at OSE in 1988, is now an internationally recognized index futures. The daily average trading volume in fiscal year 2015(from April 2015 to March 2016) is 1,374,489 units for index futures, 34,772 units for government bond futures and 4,185 units for options on government bond futures. As of November 30, 2016, the number of Trading Participants for futures and options trading is 108.

#### *Location*

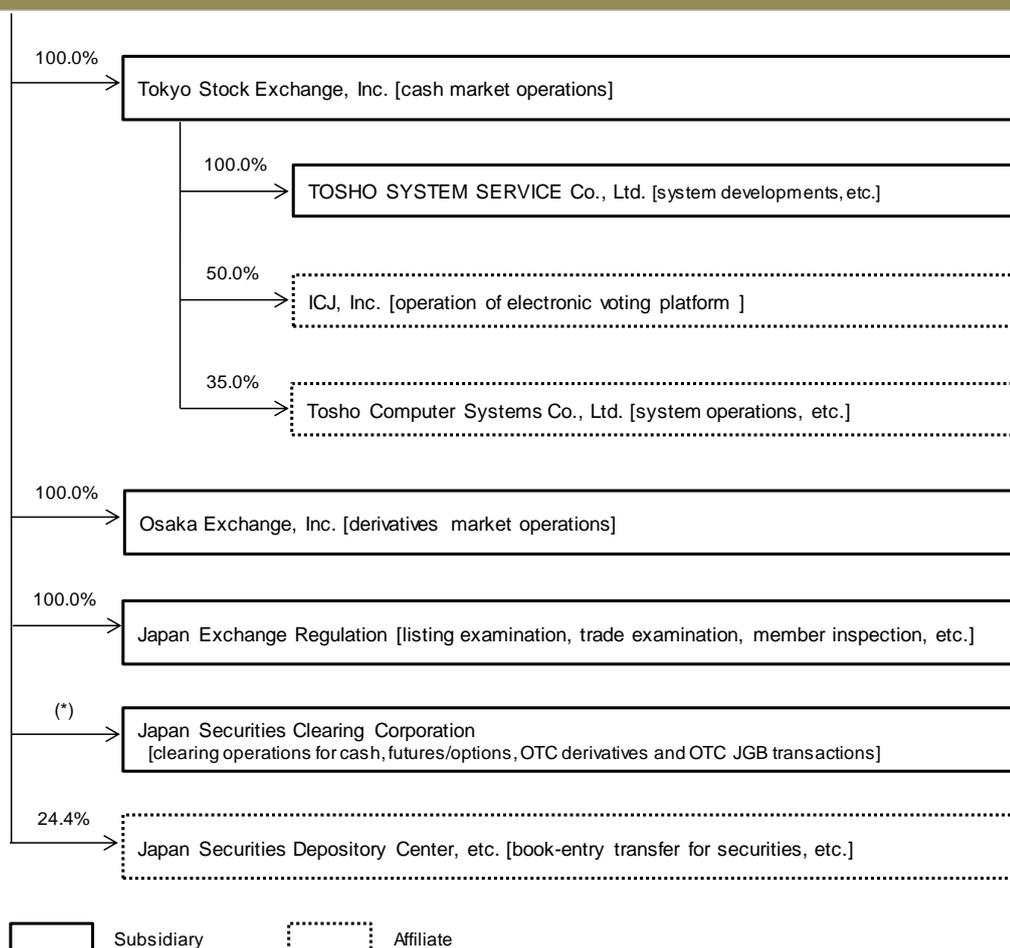
The executive offices and headquarters of OSE are located at: 8-16, Kitahama 1-chome, Chuo-ku, Osaka 541-0041 Japan.

#### *Organization*

OSE is wholly owned by JPX and was capitalized in the amount of ¥4.723 billion (approximately \$40.5 million). The company structure chart of JPX is as follows:

(As of March 31, 2016)

**Japan Exchange Group, Inc.**  
Management and administration of subsidiary financial instruments exchanges and a self-regulatory organization



Percentages indicate share of voting right.

(\*) Class A shares: 99.2% / Class B shares: 100.0% / Class C shares: 58.2% / Class D shares: 52.9%

OSE has a Board of Directors composed of three individuals. It should be noted that both OSE and JPX have separate Boards. OSE's board is responsible for making decisions on the execution of the derivatives exchange's operations, while JPX's board is responsible for supervising the execution of the operations regarding its subsidiary's management including OSE, etc.<sup>5</sup> Also, OSE employs a statutory auditor system to monitor management and has a

<sup>5</sup> Under the Companies Act (Act No. 86 of July 26, 2005), OSE is classified into "Company with Board of Directors", while JPX is classified into "Company with Nominating Committee, etc.". A Company with

Board of Auditors composed of three auditors, two of which are outside auditors. The directors and auditors of OSE are as follows.

(As of June 21, 2016)

<b>Members of the Board</b>	
<b>Position</b>	<b>Name</b>
President & CEO	Hiromi Yamaji
Senior Executive Vice President	Kotaro Yamazawa
Director	Yoshinori Karino
<b>Auditors</b>	
Standing Statutory Auditor	Masahiko Maruyama
Outside Statutory Auditor	Hiroshi Iwaki (Lawyer)
Outside Statutory Auditor	Yasuhiko Ogawa (Certified Public Accountant, Certified Tax Accountant)

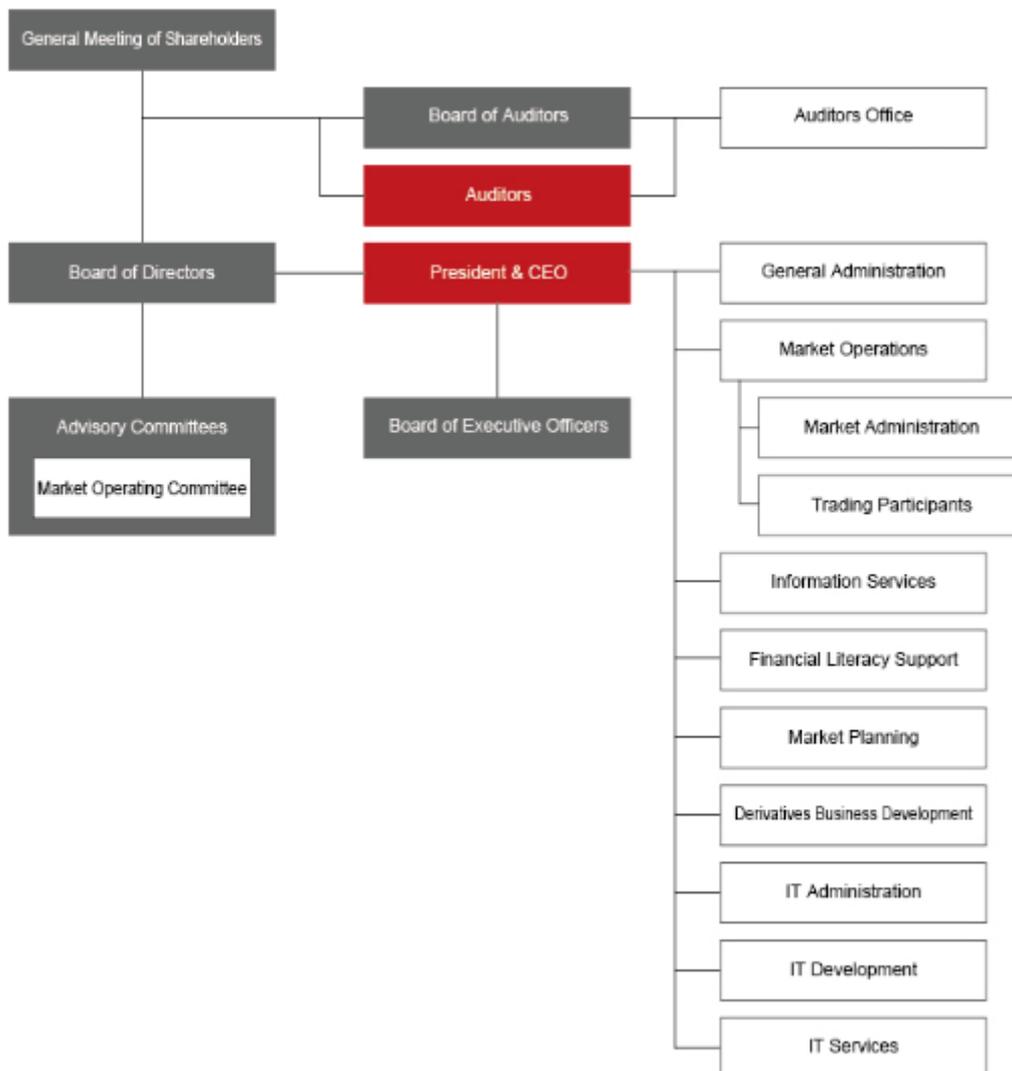
In addition, the Board of Directors established the Market Operating Committee. The committee assists the Board of Directors in discussing proposals and recommending policies on market operations of OSE, such as listing of new products and revisions to the rules for futures and options trading and its brokerage and for Trading Participants to be adopted and actions to be taken by the Board.

OSE has a staff of 131 people as of November 30, 2016.<sup>6</sup> The organization chart of OSE is as follows:

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Nominating Committee, etc. shall establish a Nominating Committee, an Audit Committee and a Compensation Committee (hereinafter referred to as “Committees”) in addition to a Board of Directors. Members of each of the Committees shall be selected from Board members and the majority shall be outside directors. As of July 26, 2016, JPX’s boards consist of 13 individuals, nine of which are outside directors.

<sup>6</sup> It should be noted that the number of employees of OSE is reduced from that when OSE was an independent exchange. However, clearing and self-regulatory functions are carried out by OSE’s affiliates. The number of employees in OSE affiliates, that are carrying out OSE-related clearing and SRO functions are not included in this number.



JPX’s English-language website is located at: <http://www.jpx.co.jp/english/>. It posts information on JPX and its wholly owned subsidiaries including OSE. The website includes general information relating to the Exchange, its corporate organization, the contracts traded thereon and on various market mechanisms, such as give-ups, non-auction transactions, circuit breaker rules and market maker programs. Moreover, it provides the public with access to various market data, including in the “Daily Official List” daily open, high, low, close, volume, open interest, last quotation, net change and settlement price. It also includes historical archived volume information.

### *OSE's U.S. Activities*

OSE established a representative office in New York in October 2014. Following the establishment of Japan Exchange Group, the representative office of TSE, which is affiliated company of OSE, was registered as OSE, TSE and JPX. There are three staff (as of November 1, 2016) in the office and all of the staff belong to these three companies. Its activities as OSE are to provide information on OSE and its trading products in the U.S and to carry out representational activities with the Commission and the press. The representative office does not provide investment advice or technical support from the U.S. Nor does it solicit, receive or direct orders with respect to the products traded on the Exchange from such a representative office.

Its other activities in the U.S. are to participate in various widely-attended industry conferences and trade shows. It may also conduct seminars relating to trading on OSE. Upon issuance of Order of Registration, it may also hold informational meetings in the U.S. for potential participants desiring to access the OSE market directly. Although OSE has in effect a FBOT no-action letter, no entity currently operates with direct access to the OSE market from the U.S.. Although OSE has no estimates or projections at this time, however, it is hopeful that U.S. firms will make use of direct access following FBOT registration.

### **Exhibit A-2**

#### **Articles of association, constitution, or other similar organizational documents.**

Attach a copy of "Articles of Incorporation".

### **Exhibit A-3**

#### **(1) Membership and trading participant agreements.**

Attach a copy of "Trading Participant Agreement".

#### **(2) Clearing agreements.**

Refer to "Contract for Commissioning Clearance" of JSCC as attached in Exhibit A-3 to Supplement S-1.

**Exhibit A-4**

**Terms and conditions of contracts to be available through direct access (as specified in Exhibit E).**

Attach the specifications of the contracts to be available through direct access (as specified in Exhibit E-1).

**Exhibit A-5**

**The national statutes, laws and regulations governing the activities of the foreign board of trade and its respective participants.**

Attach a copy of “Financial Instruments and Exchange Act”.<sup>7</sup>

**Exhibit A-6**

**The current rules, regulations, guidelines and bylaws of the foreign board of trade.**

Attach the following rules of OSE related to the application.

#	OSE Rules and Regulations
1	Business Regulations
2	Trading Participant Regulations
3	Clearing and Settlement Regulations
4	Brokerage Agreement Standards
5	Agreement for Setting up Futures/Options Trading Account
6	Special Rules for Business Regulations and Brokerage Agreement Standards Relating to the J-NET Market
7	Rules on Margins and Unsettled Contracts Pertaining to Futures/ Options Contract

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<sup>7</sup> See Exhibit F for a description of the regulatory regime governing OSE.

#	OSE Rules and Regulations
8	Rules on Regulatory Measures Concerning Market Transactions of Derivatives or their Brokerage
9	Rules Regarding Trading Participant Fees
10	Rules Concerning Examination on Obtainment of Trading Qualifications
11	Rules Concerning Order Management Systems at Trading Participants
12	Rules Regarding Just and Equitable Principles of Trade

### **Exhibit A-7**

**Evidence of the authorization, licensure or registration of the foreign board of trade pursuant to the regulatory regime in its home country jurisdiction and a representation by its regulator(s) that it is in good regulatory standing in the capacity in which it is authorized, licensed or registered.**

OSE is a financial instruments exchange that has established a financial instruments market with license granted by the Prime Minister under Article 80, Paragraph 1 of the FIEA.<sup>8</sup> Evidence of the license can be found at the following press release (Paragraph 2) of the FSA dated on December 11, 2012: <http://www.fsa.go.jp/en/news/2012/20121211-1.html>. As described in Exhibit A-1, OSE implemented Absorption-Type Split with new OSE in connection with the merger with Tokyo Stock Exchange Group, Inc., and new OSE has obtained license to establish a financial instruments market.

OSE is, as a financial instruments exchange, subject to the FIEA and overseen by the FSA as delegated by the Prime Minister. Refer to Exhibit F (5) response for the representation by the FSA concerning the regulatory standing of OSE.

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<sup>8</sup> The FIEA is attached in Exhibit A-5.

## **Exhibit A-8**

**Summary of any disciplinary or enforcement actions or proceedings that have been brought against the foreign board of trade, or any of the senior officers thereof, in the past five years and the resolution of those actions or proceedings.**

No disciplinary actions or enforcement proceedings were taken against OSE in the past five years. OSE, however, did take the following administrative actions against certain executive officers, etc. in response to the system failure in J-GATE that occurred on March 4, 2013. Refer to Exhibit D-1(5) for the system failure. It should be noted that these actions were employee administrative actions taken with respect to performance of the officers of their duties. They were not disciplinary actions to remedy violations of law, regulation or self-regulatory requirements.

(1) Reduction in executive officer compensation

Motoharu Fujikura, then-President & CEO 30% of monthly compensation for 1 month

Yoshinori Karino, Managing Director 20% of monthly compensation for 1 month

(2) Strict admonishment

A strict admonishment was issued to Yoshinori Karino, Managing Director, and Hirokazu Takemoto, then-General Manager of System Development Department

## **Exhibit A-9**

**An undertaking by the chief executive officer(s) (or functional equivalent[s]) of the foreign board of trade to notify Commission staff promptly if any of the representations made in connection with or related to the foreign board of trade's application for registration cease to be true or correct, or become incomplete or misleading.**

Attach an undertaking of OSE to notify the Commission staff if any material representation ceases to be true and complete.

## **EXHIBIT B – MEMBERSHIP CRITERIA**

**(1) Description of the categories of membership and participation in the foreign board of trade and the access and trading privileges provided by the foreign board of trade. The description should include any restrictions applicable to members and other participants to which the foreign board of trade intends to grant direct access to its trading system.**

In order to ensure fair and efficient transactions in derivatives on its market, as well as to ensure the financial integrity of its market, only those entities with access privileges may trade directly on the OSE markets. As a result of demutualization, OSE no longer provides trading privileges to “members.” Rather, as have other demutualized exchanges, it has separated ownership interests in the Exchange from access privileges. OSE permits access to those that qualify as “Trading Participants”.

OSE has three types of Trading Participants (“TPs”): Futures, etc. Trading Participants; Government Bond Futures, etc. Trading Participants; and Foreign Exchange Trading Participants.<sup>9</sup> Every entity wishing to become a TP must acquire a Trading Qualification (“TQ”) prior to conducting transactions on the OSE markets. A “Futures, etc. Trading Qualification” is needed to conduct index futures transactions.<sup>10</sup> A Government Bond Futures, etc. Trading Qualification or a Futures, etc. Trading Qualification is required to conduct government bond futures (JGB futures) and options on JGB futures. A TP is not allowed to hold Government Bond Futures, etc. Trading Qualification and Futures, etc. Trading Qualification at the same time.

**(2) Description of all requirements for each category of membership and participation on the trading system and the manner in which members and other participants are**

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<sup>9</sup> The foreign exchange margin trading markets on OSE was put in cessation in October 2014.

<sup>10</sup> Trading Participant Regulations, Rule 2. In addition, although not within the scope of this Application, Futures Trading Qualification includes access to trade options on securities transactions or index options transactions.

**required to demonstrate their compliance with these requirements.**

An entity who intends to acquire Futures, etc. Trading Qualification or Government Bond Futures, etc. Trading Qualification must be a type-I Financial Instruments Business Operator<sup>11</sup> or an Authorized Transaction-at-Exchange Operator as defined in the FIEA. Also, a Registered Financial Institution is allowed to acquire Government Bond Futures, etc. Trading Qualification. It is a financial institution other than securities companies and that is allowed to engage in part of financial instruments business, such as some banks and insurance companies. An Authorized Transaction-at-Exchange Operator is a Foreign Securities Broker that has obtained a permission of the Prime Minister to engage in sale and purchase of Securities and Market Transactions of Derivatives on a Financial Instruments Exchange (“Transaction-at-Exchange Operation”).<sup>12</sup> Hereinafter, an Authorized Transaction-at-Exchange Operator that has a TQ is called as a “Remote Trading Participant” or “Remote TP”. A Financial Instruments Business Operator or a Registered Financial Institution that has a TQ is called as a “TP in Japan” and a Remote TP and a TP in Japan are collectively called as a “TP”.

As is the same with TPs in Japan, a Remote TP may trade for its own account or on behalf of customers. However, a Remote TP may not trade on behalf of customers in Japan.<sup>13</sup> In addition, when accepting entrustment of orders on the OSE markets from customers residing in a foreign country, a Remote TP shall apply to OSE in advance and obtain the approval of OSE.<sup>14</sup>

TPs that do not have a Clearing Qualification of JSCC (“Non-Clearing Participants”) must enter into a clearing relationship with an Agency Clearing Participant of JSCC by concluding the

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<sup>11</sup> A type-I Financial Instruments Business Operator is an entity registered by the Prime Minister that conducts type-I Financial Instruments Business prescribed in Article 28 of the FIEA. Article 29-4 of the FIEA stipulates the criteria for refusal of such registration.

<sup>12</sup> Article 60-3 of the FIEA stipulates the criteria for refusal of the permission for Transaction-at-Exchange Operation.

<sup>13</sup> Trading Participant Regulations, Rule 20-2, Paragraph 1

<sup>14</sup> Trading Participant Regulations, Rule 20-2, Paragraph 2

“Contract for Commissioning Clearance” prescribed by JSCC. A Non-Clearing Participant opens an account with the Agency Clearing Participant in its own name for clearing of its trades including the trades based on entrustment of its customers. Accordingly, Remote TPs who are FCMs would clear their customers’ positions through an omnibus account with an Agency Clearing Participant. A Remote TP may not obtain a clearing qualification according to laws and regulations in Japan; therefore, it must appoint an Agency Clearing Participant.

To acquire a TQ, an entity wishing to become a TP must submit an application, be subject to examination as prescribed by OSE and pay a qualification examination fee.<sup>15</sup> Upon application, the applicant must submit documents containing its company profile, financial condition, etc. Such documents include annual reports for past three fiscal years, descriptions of business operations and status of its property, and the internal rules regarding methods of controlling potential loss or business operations, etc. Since OSE entrusts the examination for acquiring a TQ to JPX-R, JPX-R examines based on such documents whether the applicant satisfies the following requirements for acquiring a TQ that are prescribed by OSE. The department of JPX-R responsible for the examination is “Participants Examination & Inspection” (Refer to Exhibit G-1 for the size and experienced level of the department). Its staff checks the applicant’s conformance to the requirements through examination based on the submitted documents, hearings based on the documents, visits to main and branch offices and interviews with executive officers.

The applicant, to trade futures and related instruments, must have a stated capital amount of no less than ¥300 million (approximately \$2.6 million), a net asset of no less than ¥500 million (approximately \$4.3 million) and more than its stated capital amount, and a capital adequacy ratio of no less than 200%. Remote TPs will not be subject to the Japanese capital adequacy ratio. Rather, OSE will rely on the capital rules that Remote TPs are subject to by their home-country regulators.<sup>16</sup> Additionally, the applicant must have a sound management structure and appropriate system for business operation. Furthermore, the applicant is expected

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<sup>15</sup> Trading Participant Regulations, Rule 30.

<sup>16</sup> Rules Concerning Examination on Obtainment of Trading Qualifications

to show stable profitability.<sup>17</sup>

After obtaining the OSE's approval, which is based on JPX-R's decision that the applicant meets the criteria above, in order to become a TP, the entity must pay a Trading Participation Fee, execute a Trading Participant Agreement, undertake procedures to acquire any Clearing Qualifications or establish a clearing relationship with a Clearing Participant, deposit Guarantee Funds and Trading Participant Security Money and execute any other procedures for acquiring TQs stipulated by OSE.<sup>18</sup> In addition, TPs must pay basic fees, trading fees, give-up fees, derivatives trading system connection fees and cancellation fees on a monthly basis.<sup>19</sup>

TPs must deposit ¥3 million (approximately \$25.7 thousands) (or securities in lieu of cash<sup>20</sup>) with OSE as a Guarantee Fund.<sup>21,22</sup> If specifically considered necessary, upon resolution of the Board of Directors, OSE can raise the Guarantee Fund amount and/or limit the securities eligible to be deposited in lieu of cash.<sup>23</sup> The Guarantee Fund, to which TPs are required to contribute, ensures the settlement of contracts for the TP's customers. Thus, a TP's customers who have entrusted market transactions in derivatives to the TP have the right to receive, in preference over other creditors, payment from the Guarantee Funds of the TP with regard to claims incurred under such entrustment.<sup>24</sup> As of March 31, 2016, the Guarantee Fund holds deposits of ¥1.053 billion (approximately \$9.0 million).<sup>25</sup> Furthermore, TPs cannot request the return of the Guarantee Funds until 6 months after the date from which its TQ is withdrawn. Moreover, TPs cannot assign or offer for collateral the right to claim the return of the Guarantee

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<sup>17</sup> Rules Concerning Examination on Obtainment of Trading Qualifications

<sup>18</sup> Trading Participant Regulations, Rule 32.

<sup>19</sup> Trading Participant Regulations, Rule 9.

<sup>20</sup> Remote TPs may not deposit a Guarantee Fund in the form of securities.

<sup>21</sup> Trading Participant Regulations, Rule 11.

<sup>22</sup> Since OSE entrusts the operations related to the deposit of the Guarantee Fund to JSCC, TPs shall deposit it into a JSCC's account.

<sup>23</sup> Trading Participant Regulations, Rule 11.

<sup>24</sup> See FIEA, Article 114

<sup>25</sup> The amount of the Guarantee Fund is the sum of cash and market value of substituted securities.

Funds.<sup>26</sup> OSE holds the Guarantee Funds separately from its own assets and manages them in the following ways: (i) purchase of government bonds or municipal bonds; (ii) bank deposits or (iii) monetary trust<sup>27</sup> with a bank engaging in trust business.

TPs must deposit Trading Participant Security Money with OSE in cash or securities in order to ensure that TPs fulfill their obligations relating to the payment of trading participant fees.<sup>28,29</sup> The required amount of Trading Participant Security Money will be the sum of the following: (a) the sum of the basic fee and the derivatives trading system connection fee of such TP for one month as of the end of the most recent fiscal year; and (b) the sum of the amount for two months of an average monthly amount of trading fees and give-up fees of such TP for the most recent fiscal year (in case of the fiscal year including the date on which newly obtain Trading Qualification, the amount specified by OSE based on the actual and expected trading activities by such TP).<sup>30</sup> As is the same with Guarantee Fund, if specifically considered necessary, upon resolution of the Board of Directors, OSE may raise the Trading Participant Security Money amount and/or limit the securities eligible to be deposited in lieu of cash.<sup>31</sup> TPs cannot request the return of the Trading Participant Security Money until 2 months after the date from which its TQ is withdrawn.

In addition, there are a number of formal notification requirements with which a TP must comply. For example, TPs are required to notify OSE of either a representative director or executive officer (a “Trading Participant Representative”) to represent the TP at the OSE. Although only the Trading Participant Representative may represent the TP in the relationship between the TP and OSE, routine business the scope of which has been determined in advance

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<sup>26</sup> Trading Participant Regulations, Rule 12.

<sup>27</sup> Monetary trust is a trust where a depositor deposits its asset in cash and its asset is returned in cash at the end of the trust period.

<sup>28</sup> Trading Participant Regulations, Rule 11-2.

<sup>29</sup> Since OSE entrusts the operations related to the deposit of the Trading Participant Security Money to JSCC, TPs shall deposit it with JSCC’s account.

<sup>30</sup> Rules Regarding Trading Participant Fees, Rule 6.

<sup>31</sup> Trading Participant Regulations, Rule 11-2.

can be carried out by an agent notified to OSE.<sup>32</sup> Similarly, TPs must notify OSE of one office, which is conveniently located for liaising with OSE, from among its head office, other business offices or principal administrative offices.<sup>33</sup> Remote TPs are required to register its representative person and the address in Japan with OSE, as prescribed in Article 60-2, Paragraph 1 of the FIEA.<sup>34</sup>

In addition to qualifications, fees and notification requirements, TPs must comply with several self-regulation requirements and OSE mandates. For example, TPs must establish transaction management procedures which help prevent unfair trading<sup>35</sup> and establish order management procedures to prevent acceptance and placement of erroneous orders.<sup>36</sup> Furthermore, TPs must ensure fair pricing and smooth circulation on the OSE markets and make best efforts to preserve and improve the function of OSE as a financial instrument exchange market.<sup>37</sup> Additionally, TPs must notify OSE in advance, and in some cases seek OSE approval, when terminating the business, merging with another legal entity, dissolving, transferring the whole business, changing the corporate name, or changing directors.<sup>38</sup> Lastly, TPs must submit documents in response to OSE's requests regarding investigations into the financial condition of the TP, investigations for purposes of maintaining fairness in transactions or where the OSE considers it appropriate.<sup>39</sup>

A TP may trade for its own account, or on behalf of others, though there are specific requirements relating to trading on behalf of another, referred to in OSE rules as "acceptance of entrusted transactions."<sup>40</sup> TPs that accept entrustment for transactions on the OSE markets are

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<sup>32</sup> Trading Participant Regulations, Rule 6.

<sup>33</sup> Trading Participant Regulations, Rule 8.

<sup>34</sup> Trading Participant Regulations, Rule 8, Paragraph 2.

<sup>35</sup> Trading Participant Regulations, Rule 21.

<sup>36</sup> Trading Participant Regulations, Rule 21-2.

<sup>37</sup> Trading Participant Regulations, Rule 4.

<sup>38</sup> Trading Participant Regulations, Rule 15.

<sup>39</sup> Trading Participant Regulations, Rule 17.

<sup>40</sup> Trading Participant Regulations, Rule 18.

required to comply with the Brokerage Agreement Standards stipulated by OSE, and the TPs must conduct an investigation in advance of opening a customer account to verify the customer's name and various other matters.<sup>41</sup>

In addition to these self-regulation and compliance requirements, OSE reserves emergency authority which allows OSE to impose necessary and appropriate restrictions on the business of TPs when OSE considers there is an urgent need<sup>42</sup>, and OSE may take disciplinary action(s), including suspension of trading and not more than ¥500 million fines, against a TP for violations of laws and regulations, dispositions of government authorities thereunder or OSE rules, or for behaving contrary to the just and equitable principles of trades.<sup>43</sup>

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<sup>41</sup> Trading Participant Regulations, Rule 19.

<sup>42</sup> Trading Participant Regulations, Rule 23.

<sup>43</sup> Articles of Incorporation, Article 47. Trading Participant Regulations, Rule 42.

## **EXHIBIT C – BOARD AND/OR COMMITTEE MEMBERSHIP**

**(1) Description of the requirements applicable to membership on the governing board and significant committees of the foreign board of trade.**

**(2) Description of the process by which the foreign board of trade ensures that potential governing board and committee members/other participants meet these standards.**

**(3) Description of the provisions to minimize and resolve conflicts of interest with respect to membership on the governing board and significant committees of the foreign board of trade.**

**(4) Description of the rules with respect to the disclosure of material non-public information obtained as a result of a member's or other participant's performance on the governing board or significant committee.**

### *Board of Directors*

OSE elects thirteen or less directors (three as of June 21, 2016) at a general meeting of shareholders.<sup>44</sup> The resolution on the election of directors shall be made by a majority of the voting rights held by the shareholders present at the shareholders meeting, where the shareholders holding one third (1/3) or more of the voting rights of the shareholders entitled to exercise their voting rights are present.<sup>45</sup>

OSE requires those who have accepted their office to submit a pledge saying that they do not fall under the disqualification criteria<sup>46</sup> set forth in the law. OSE confirms that a director does not fall under the disqualification criteria prescribed in the law by said pledge. In regard to

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<sup>44</sup> Articles of Incorporation, Article 18 and Article 19.

<sup>45</sup> Articles of Incorporation, Article 19, Paragraph 2.

<sup>46</sup> See Article 82, Paragraph 2, Item 3 (a) through (f) of the FIEA and Article 331, Paragraph 1, Item 3 of the Companies Act.

provisions to minimize and resolve conflicts of interest, directors who engage in daily business of OSE are not allowed to engage in financial instruments business during the term of office.<sup>47</sup> Also, directors who have a special interest in the resolution of the Board of Directors may not participate in the vote.<sup>48</sup>

#### *Market Operating Committee*

OSE has the Market Operating Committee as an advisory committee of the Board of Directors. The Market Operating Committee consists of twenty or less members (twelve as of June 21, 2016). Members of the committee shall be commissioned to serve by the Board of Directors from: (a) the board members, executive officers or employees of Trading Participants; and (b) persons who possess insights into the financial instruments exchange market, other than persons engaged in the daily business at a company carrying out business directly related to financial instruments business. The Market Operating Committee may provide advice in response to consultation by the Board of Directors or state its opinion to the Board of Directors on material issues on operation of the financial instrument markets established by OSE.

#### *Rules on Disclosure of Material Non-public Information*

The FIEA prohibits officers and employees of a Financial Instruments Exchange, self-regulatory organization and Financial Instruments Clearing Organization from divulging or misappropriating any secret learned in the course of duty.<sup>49</sup>

In regard to treatment on the disclosure of material non-public information, pursuant to the rules for timely disclosure of information etc. imposed on listed companies, JPX discloses the material information, including the resolutions of the Board of Directors in the subsidiary companies including OSE, that may have a significant impact on investment decisions, promptly after the occurrence of the fact or the resolution made by the Board of Directors, through the timely disclosure network. Also, JPX established the internal rules applicable to all of the group companies, including OSE, on management of insider information and

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<sup>47</sup> Articles of Incorporations, Article 21, Paragraph 3.

<sup>48</sup> See Article 369, Item 2 of the Companies Act.

<sup>49</sup> FIEA, Article 87-8 and Article 156-8.

disclosure, etc. In accordance with said internal rules, JPX established a system to appoint a person in charge of insider information management for all of the group companies, and make the officers, including directors, and employees to report to said person in charge of information management when obtaining insider information. The person in charge of information management will disclose such information through the media, according to the type of information with approval of the Group CEO and Group COO of JPX. By way of clarification, it should be noted that both OSE and JPX have separate Boards. OSE's board is responsible for making decisions on the execution of the derivatives exchange's operations, while JPX's board is responsible for supervising the execution of the operations regarding its subsidiary's management including OSE, etc. Since JPX is a listed company, it prescribes treatment on material information for JPX group companies.

## EXHIBIT D – THE AUTOMATED TRADING SYSTEM

### Exhibit D-1

**(1) The order matching/trade execution system, including a complete description of all permitted ways in which members or other participants (or their customers) may connect to the trade matching/execution system and the related requirements (for example, authorization agreements)**

The OSE Trading System, called “J-GATE,” was developed by using “Genium INET,” a trading system for exchanges powered by Nasdaq.<sup>50</sup> OSE provides its TPs with certain components of the system, while requiring them to purchase other elements. Specifically, OSE supplies the central order processing facilities of the system (known as the “Central System,” located in Japan); and a library of application program interfaces (“API Kit”) for the online interface, through which a Trading Participant’s front-end trading application (“API Client”) communicates with the Central System. OSE TPs choose their own, and are responsible for their own use of, communication equipment, lines and a connection configuration from the communication equipment and access line products, which include for example, provider, line type, and bandwidth.

TPs shall submit an application form to OSE in advance for connecting their system to J-GATE. The application confirms that TPs accept the terms and conditions on connection to J-GATE prescribed by OSE. The terms and conditions includes but not limited to matters concerning approval/disapproval of connectivity application, system connection fees, compliance rules on connection methods, prohibited actions, obligations of confidentiality. TPs shall only use the API connection for the purpose of connection to and use of J-GATE and related matters, and have to conform to the connection specifications defined by OSE.

TPs have to use either *arrownet* service (i.e. a wide area network that connects TP’s system site

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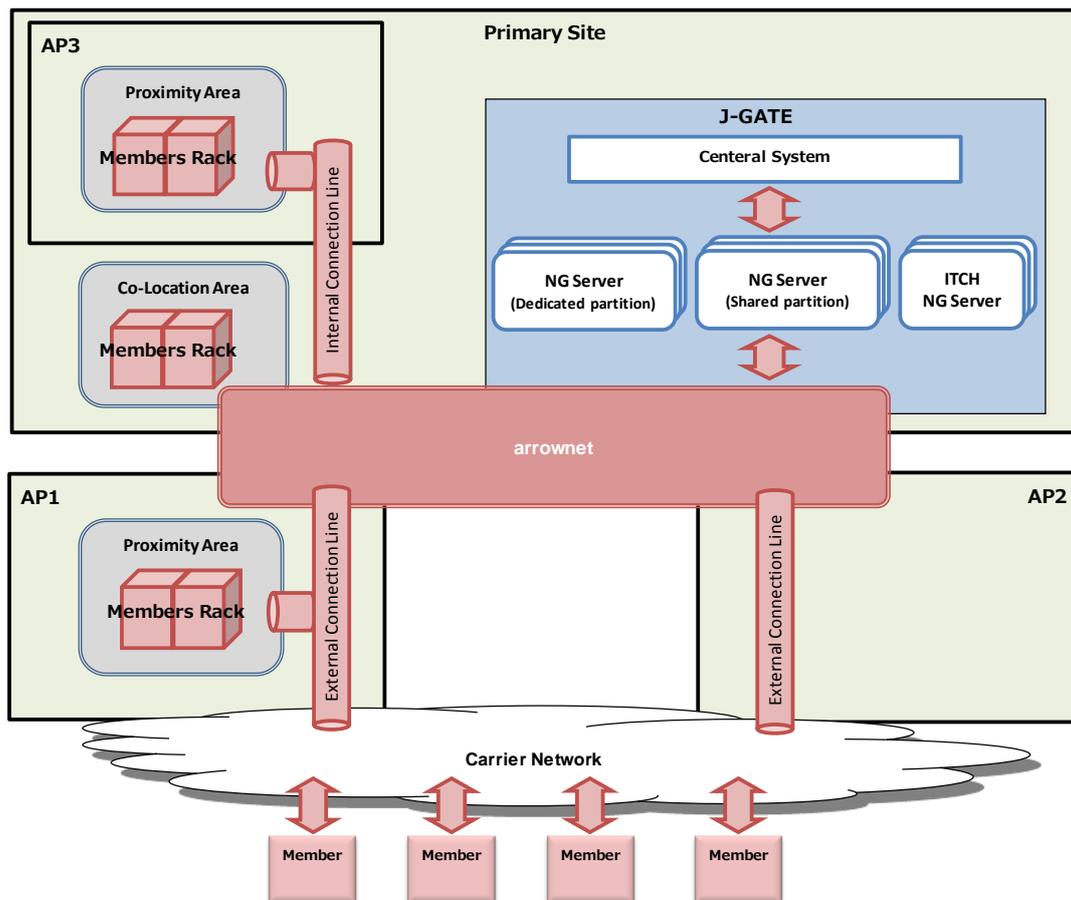
<sup>50</sup> On July 19, 2016, OSE upgraded the based package system of J-GATE from “Click XT” to its successor “Genium INET”.

to the exchange's site) provided separately by Tosho System Service ("TSS") or co-location service provided separately by TSE to connect their system to J-GATE, and abide by the rules set separately by TSS or TSE.

**(2) The architecture of the systems, including hardware and distribution network, as well as any pre- and post-trade risk-management controls that are made available to system users**

*System Overview*

OSE TP's systems communicate with the Central System of J-GATE by connecting to the network gateway ("NG") through *arrownet*. An overview diagram is as follows:



\* "AP" stands for access point.

### *Central System*

The Central System performs the security, order processing, and connection monitoring functions of the J-GATE. Among other things, the Central System maintains a database of currently authorized OSE Traders, validates a trader's authority to trade on OSE, processes and records all orders, validates requests for order modifications and cancellations, matches orders, maintains the central order book, sends market broadcast data messages (i.e. order book information, open, high, low and close prices and the data on trading suspension, etc.) to API Client, and monitors the status of the system connections between the Central System and the API Client. The Central System underwent comprehensive business and technical testing before it was declared operational.

### *API Client*

The API Client is the software to connect to the Central System by using the API Kit provided by OSE. Currently, OSE TPs may use the API Client developed by their own or an application provided by independent software vendors (“ISVs”) to access the Central System.

### *arrownet*

The *arrownet* is a redundant ring network, which connects TP’s systems to the sites of the exchange’s system including OSE and TSE, with the access points. It replaces the former network system dedicated for J-GATE, called GATENET. Users can connect to J-GATE by connecting to the access points via carrier lines.

The *arrownet* enables a single physical carrier line to have several logical lines, so that users can share a carrier line with systems other than J-GATE. The *arrownet* has several access points, so that users can diversify the risk of a failure in one access point by adopting a redundant configuration that allows users to connect to either access point.

When OSE adopts Remote TPs in the future, the *arrownet* may be expanded to connect TPs outside of Japan to the Central System. In this case, hubs in major financial centers, including hubs located in the United States, will connect to the Central System located in Japan. Orders of Remote TPs (including U.S. Remote TPs) arriving at the Central System from the new hubs

will not be treated any differently or disadvantaged by the Central System from those of OSE's TPs located in Japan.

#### *Co-location Service*

The co-location service common to OSE and TSE is available for use by TPs including U.S. Remote TPs, information vendors and ISVs. It is provided by TSE on a uniform and non-discriminatory basis in terms of availability and fees. The service provides its users with spaces to install devices with trading programs, etc. in the primary site of OSE and TSE. The users can, through the service, connect to all trading systems and market information system of OSE and TSE. A TP wishing to use the co-location service must submit an application form to and enter into a user agreement with TSE.

#### *Risk Management Control*

Considering the issues arising from erroneous orders and market participant's demand to the operators of market infrastructures, OSE has taken measures for enhancing stability and credibility of trading in its markets. For instance, the OSE trading system rejects an order with its size more than the value specified by OSE. In addition, OSE requires TPs to establish order and risk management system and related internal rules.

Following further advance of information technology, an impact of failure to operate order and risk management of TPs has grown significant. Based on such circumstance, OSE determined to adopt Genium INET TradeGuard application (hereafter "TradeGuard") at the upgrade of J-GATE in July 2016, and started to offer TPs order and risk management function. TradeGuard has additional functions such as mass cancel<sup>51</sup> and manual block<sup>52</sup>, and TPs may use those functions. In the following part, order and risk management function of TradeGuard, "pre-trade risk check function" and "at-trade risk check function", will be described.

#### **a. Handling Unit of TradeGuard**

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<sup>51</sup> It is a function that cancels all orders placed from trading users in a Pre-trade Limit Group("PTLG") at the same time.

<sup>52</sup> It is a function that forces new orders and order amendment to be rejected.

i. Pre-Trade Limits Group (PTLG)

“PTLG” refers to a group of J-GATE users for trading (hereafter “trading users”) belonging to Sponsoring Participants (meaning Sub-Participants<sup>53</sup> for administration) and Sponsored Participants (meaning normal Sub-Participants). TPs must make all trading users belong to any PTLG, because TradeGuard applies only to orders<sup>54</sup> placed from trading users within PTLGs.

ii. Tradable

“Tradable” refers to a set of instruments traded in J-GATE for administrating the cumulative risk values. The exposure of each PTLG to a Tradable is monitored and limited by TradeGuard.

iii. Calculation Method

The method of risk check may be selected from among “quantity-based”, “volume-based (quantity x contract multiplier)” and “value-based (quantity x contract multiplier x price)”.

**b. Pre-trade risk check**

In light of ensuring that TPs enforce pre-trade risk check thoroughly, OSE has obligated all TPs to implement such check by using TradeGuard.<sup>55</sup> Each TP has to decide the specific value of the relevant parameters based on its rules on credit management to customers, etc.

Pre-trade risk check function is comprised of “max size control function” and “restricted instrument function”. The max size control function is for rejecting order-book registration of a new or modified order with its size not less than the max size set by TPs per Tradable. On the other hand, the restricted instrument function enables TPs to configure whether to reject orders for the instruments except those set as Tradable.

**c. At-trade risk check**

Contrary to the pre-trade risk check function, TPs may choose whether to use the at-trade check

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<sup>53</sup> A Sub-Participant is a handling unit of J-GATE set in advance within a TP.

<sup>54</sup> TradeGuard does not monitor orders for J-NET markets.

<sup>55</sup> Rules Concerning Order Management Systems at Trading Participants, Rule 6, Item 1.

function. The function is used for administrating the number of orders per unit time and the cumulative value<sup>56</sup> concerning orders that have registered on the order books and executed trades. If a risk value monitored through at-trade risk check function exceeds the limits, such information transmits to the pre-trade risk check function and a new or modified order is rejected in the pre-trade risk check unless lifting the restriction manually.

**(3) The security features of the systems.**

The J-GATE includes a security system that provides for authentication and confidentiality. The essential purpose is to prevent unauthorized use during API Client. It also ensures the integrity of the J-GATE by using features embedded in the API that cannot be accessed externally. The security system is responsible for: (i) maintaining the database of currently certified users; (ii) authenticating certified users as they log on; and (iii) distributing session keys as part of the login process. The J-GATE maintains a list of currently logged-in users on a real time basis through the market management terminal. A list of logged-in users at a particular time in the past may be created by using the past log data.

OSE assigns a unique participant code and user ID to each TP, and each TP creates a password for login to connect to the Central System. While logged into the Central System, concurrent login to the Central System using the same user ID through other API Client is not allowed.

**(4) The length of time such systems have been operated.**

J-GATE launched on February 14, 2011, and the based package system upgraded from “Click XT” to “Genium INET” on July 19, 2016.

**(5) Any significant system failure or interruptions.**

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<sup>56</sup> The limits configurable are as follows: (i) open buy orders, (ii) open sell orders, (iii) executed buy trades, (iv) executed sell trades, (v) net trades( $iii - iv$ , absolute), (vi) total buy ( $i+iii$ ), (vii) total sell ( $ii + iv$ ), (viii) total net buy ( $iii - iv + i$ ), (viiii) total net sell ( $iv - iii + ii$ ).

The significant system failure and interruption occurred since the launch of J-GATE are as follows:

- (a) On March 4, 2013, a defect of the software that serves order processing in J-GATE was detected in Nikkei 225 Options trading. At that time, OSE suspended trading in all the futures contracts and Nikkei 225 Options contracts for around four hours at the longest.
- (b) On March 4, 2014, OSE suspended trading in Nikkei 225 futures, Nikkei 225 mini and Nikkei 225 Options contracts for around 25 minutes due to operational error.

**(6) The nature of any technical review of the order matching/trade execution system performed by the foreign board of trade, the home country regulator, or a third party.**

OSE sets up IT general control as one of the internal control system and an auditing firm reviews the status of the execution every year. No defect has been pointed out in the review so far.

**(7) Trading hours.**

The trading hours<sup>57</sup> on J-GATE are as follows:

(a) Index futures contracts other than Nikkei Stock Average Volatility Index Futures<sup>58</sup>

	Day session	Night session
Auction Market <sup>59</sup>	8:45-15:15	16:30-5:30 (next day)
J-NET Market	8:20-16:00	16:15-5:30 (next day)

<sup>57</sup> All trading hours are in Japan Standard Time(UTC+9).

<sup>58</sup> Nikkei 225 Futures, Nikkei 225 mini and TOPIX Futures have Non-Cancel Period (“NCP”). During the period, no order amendment and cancellation may be implemented. NCP is one minute period before call auctions except the closing auction of day session. See also Exhibit E-1.

<sup>59</sup> For the description of trading on each market, refer to Exhibit D-2.

(b) Nikkei Stock Average Volatility Index Futures

	Day session	Night session
Auction Market	9:00-15:15	16:30-19:00
J-NET Market	8:20-16:00	16:15-19:00

(c) JGB futures and options on JGB futures contracts

	Morning session	Afternoon session	Night session
Auction Market	8:45-11:02	12:30-15:02	15:30-5:30 (next day)
J-NET Market	8:20-15:15		15:25-5:30 (next day)

**(8) Types and duration of orders accepted.**

The J-GATE supports the following order types with respect to the auction-driven market:

- Limit Order: An order submitted with a specified limit price and to be executed at the specified price or better price.
- Market Order: An order submitted without the specified limit price and to be executed against the best bid or the best offer in order. (The unfilled part of a market order cannot be stored on the order book (the unfilled part is forced to be cancelled).)
- Market to Limit Order: A limit order submitted without the specified limit price and to be executed against the best bid or the best offer at the time. (In case there is no best offer or best bid to be matched with, a market to limit order is forced to be cancelled.)
- Closing Condition Order: An order to be recorded on the order book when markets transits to a pre-closing session specified at the order submission.

Orders may additionally specify the following conditions:

- Good for Day (GFD): Make an order valid until the end of the day session of the day (or, until the end of the night session if the order is submitted at the night session).
- Good till Date (GTD): Make an order valid until the end of the day session on the date the specified period ends<sup>60</sup> (up to 255 days)

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<sup>60</sup> The date will be brought forward, if the date falls on a non-business day. Therefore, in order to submit an order which remains valid until Monday in the day session on Friday, an order should be submitted with setting four days

- Good till Cancel (GTC): Make an order valid until the cancellation (a type of GTD) (If not cancelled, it is valid until the end of the day session on the last trading day.)
- Fill and Kill (FAK): In the case where there is unfilled volume after the order is partially executed, cancel the unfilled volume.
- Fill or Kill (FOK): In the case where all the volume is not executed immediately, cancel all the volume.

In addition, the J-GATE supports non-auction trade matching. This facility, known as the J-NET market, is described in Exhibit D-2 (1).

**(9) Information that must be included on orders.**

An order must include the following information: series code, price, size, order type, order condition, sell or buy, and for proprietary account or for customer account.

**(10) Trade confirmation and error trade policy.**

*Trade confirmation*

When an order is executed, J-GATE disseminates trade execution message to the TP. TPs can confirm whether their orders are executed and the detail of the execution by the message. The message includes execution time, price and size, etc.

*Error trade policy*

The error trade policy has been established based on the basic policy that trades once executed should not be canceled in terms of ensuring market fairness and continuity and the trade cancelation rule should apply only to the case where it is considered that market would distinctively disrupt due to the trades by an erroneous order, such as where the trades make smooth settlement very difficult. Considering the characteristic of derivatives products or small order size limit, no specific number standard is set in advance. Only when OSE deems that market would distinctively disrupt due to the trades by an erroneous order, such as where the trades make smooth settlement very difficult, trades may be canceled.

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for the condition for validity period. If an order is submitted with setting one day, two or three days for the condition for validity period, the order will become invalid when the trading date is switched from Friday to Monday.

### **(11) Anonymity of participants**

When J-GATE receives an order from a TP, it delivers order acceptance message to the TP. Also, when an order is executed, J-GATE delivers trade execution message to a TP who has placed the order. In details, these messages are sent to all users within a specific group called Sub-Participant of a TP set in advance by OSE. In cases where a TP has to receive the messages separately according to the division and customer, it may have the other Sub-Participant codes by applying to OSE. These messages do not include information on the counterparts of transactions.

Apart from the messages mentioned above, J-GATE disseminates information on bids/offers and trade execution as market information to TPs and information vendors. The information does not include any clue that enables them to identify who has placed orders and executed trades.

### **(12) Trading system connectivity with clearing system**

J-GATE transmits information through a gateway server to JSCC clearing system (JSCC-CS).<sup>61</sup> The information includes trade execution, daily and final settlement price, and underlying index value. A frequency and timing of the transmission depends on the type of information. Trade execution information is transmitted on a real-time basis, while daily settlement price is around 16:00. J-GATE sends the information to the gateway server through APIs, and the gateway server sends it to JSCC-CS by using Message Queuing or File Transfer Protocol.

### **(13) Response time**

The average order processing latency of J-GATE is 100 microseconds. An order processing latency is a figure obtained by measuring the internal processing time from receiving of an order to completion of registration to order book to sending back the receipt message.

### **(14) Ability to determine depth of market**

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<sup>61</sup> Refer to Exhibit D-1to Supplement S-1 for JSCC clearing system. The OSE clearing system ceased to operate in November 2014.

J-GATE disseminates order information including order volume as “Price Depth”. Price Depth includes 10 prices above and below the best bid/offer and the total order volume placed at each price. Apart from Price Depth, J-GATE disseminates data on all orders and trades for market information by using ITCH protocol. TPs or information vendors may subscribe both or either of Price Depth and/or ITCH, depending on their policies, etc.

**(15) Market continuity provisions**

Attach a copy of “BCP of Japan Exchange Group” and “Contingency Plan with Regard to Trading in the Derivatives Market”.

**(16) Reporting and recordkeeping requirements**

*Reporting to OSE by TPs*

TPs shall report matters concerning TP’s systems to OSE as prescribed by OSE, and cooperate with OSE to ensure and maintain the stability of J-GATE.<sup>62</sup> OSE may request TPs to report the number of and capacity regarding order placement and plan to change the capacity, and the other matters which it deems necessary. In addition, TPs shall promptly report to OSE when any irregularity has been found in the connection to and use of J-GATE, under the terms and conditions on connection to J-GATE. OSE may, when deeming it necessary, inspect the usage conditions of TPs in order to investigate TP’s compliance with the said terms and conditions and connectivity specifications defined by OSE.

*Reporting to TPs by OSE*

OSE shall report total trading volume and high, low, closing price of each contract and the other information to TPs under the FIEA.<sup>63</sup> OSE makes such report through J-GATE, etc.<sup>64</sup>

*Recordkeeping*

As described in Exhibit D-2 (3) and (8), OSE completely captures and retains information on orders and transactions, etc. through J-GATE. On the other hand, TPs are required to prepare

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<sup>62</sup> Business Regulations, Rule 51, Paragraph 3

<sup>63</sup> FIEA, Article 130.

<sup>64</sup> Business Regulations, Rule 48

and preserve the books and documents such as order books preserved for seven years.<sup>65</sup>

## **Exhibit D-2**

### **Description of the manner in which the foreign board of trade assures the following with respect to the trading system:**

#### **(1) Algorithm. The trade matching algorithm matches trades fairly and timely.**

The J-GATE is used to access two forms of trading. The first is the auction-driven market. Under this market, bids and offers are entered through the J-GATE where they are matched by the Central System using an auction process. The Central System uses time-price priority sequencing in matching and executing orders, so that the best bid is matched to the best offer, giving priority for bids or offers at the same price to the first entered into the system. If an order can only be partially filled, the next oldest bid or offer at that price is matched until the remainder of the order is filled, and if the amount bid or offered at that price is exhausted, the unfilled portion of the order is then executed at the next best price beginning with the oldest bid or offer.

In addition, the J-GATE supports non-auction trade matching on the J-NET market. The J-NET market makes use of the J-GATE to execute orders such as block trades, EFPs (Exchange for Physicals), VWAP (Volume Weighted Average Price), option strategy trading (strangle, calendar spreads, etc.), and strategies combining block trades of futures and options (such as hedging futures by options and arbitrage trade of futures using options).

The J-NET market began as a block trading facility for cash products. Before the J-NET market was introduced for futures and options trading, block trades on futures and options contracts were conducted through the Non-Auction Large Block Trading System. The Non-Auction Large Block Trading System enabled buyers and sellers to trade futures and options contracts in increments larger than prescribed by OSE at prices which such parties

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<sup>65</sup> FIEA, Article 46-2.

previously agreed upon that were within the ranges prescribed by OSE.<sup>66</sup> This Non-Auction Large Block Trading System enabled buyers and sellers to trade futures and options contracts while avoiding market impact. On January 4, 2008, OSE replaced the Non-Auction Large Block Trading System with the J-NET Derivatives Trading System to respond to diversified trading needs of institutional investors, among others.

As noted above, the J-NET market is currently a functionality of the J-GATE that enables TPs to execute orders for transactions, such as block trades, that are within a range specified by OSE, but which are agreed upon before being entered into the J-GATE. It also provides the functionality to enter into trading strategies that make use of theoretical pricing relationships keyed off of a market-based price, such as calendar spreads. Similar to such transactions on domestic U.S. contract markets, all of these types of transactions take place subject to the rules of OSE, which provide strict conditions for their use.<sup>67</sup>

**(2) IOSCO Principles. The trading system complies with the Principles for the Oversight of Screen-Based Trading Systems for Derivative Products developed by the Technical Committee of the International Organization of Securities Commissions (IOSCO Principles). Provide a copy of any independent certification received or self-certification performed and identify any system deficiencies with respect to the IOSCO Principles.**

Attach a self-certification of J-GATE's compliance with the IOSCO Principles.

**(3) Audit Trail**

**(i) The audit trail timely captures all relevant data, including changes to orders.**

The J-GATE captures and retains a complete audit trail including all orders, executed trades, pricing information and confirmations entered into the Central System.

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<sup>66</sup> For example, Nikkei 225 Futures were traded in increments of at least 200 contract units (although this was later reduced to 100 units).

<sup>67</sup> See, Chapter 2, Special Rules for the Business Regulations and Brokerage Agreement Standards Relating to the J-NET Market.

**(ii) Audit trail data is securely maintained and available for an adequate time period.**

Refer to Exhibit D-2(8).

**(4) Public Data. Adequate and appropriate trade data is available to users and the public.**

OSE disseminates trading data (prices/quotes) to TPs via the J-GATE. It also makes data available to purchasers. Data is also generally available through third party vendors, such as Bloomberg and Reuters. OSE Participants also have available to them from the J-GATE a summary of the TP's activity during that session including the TP's orders entered during the current trading session and completed trades. See also Exhibit D-1(14).

Additional information such as daily high, low, open interest and volume is distributed publicly by OSE.<sup>68</sup> Daily trading data is available on the OSE's daily official list. Monthly data is available in "Monthly Statistics Report" or "Monthly Quotations" section of the JPX website

**(5) Reliability. The trading system has demonstrated reliability.**

Refer to the attached Exhibit D-2 (5).

**(6) Secure Access. Access to the trading system is secure and protected.**

TPs may not connect to J-GATE by using any method except the connectivity specifications defined by OSE, and may not conduct certain actions such as connecting to J-GATE from unauthorized User IDs and the network addresses and/or port numbers other than those that they have applied for OSE.

TPs are required to enter a Login ID and a password to log in J-GATE. A Login ID is assigned by OSE per User ID according to the defined rules. The password shall be set by TPs

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<sup>68</sup> <http://www.jpx.co.jp/english/markets/statistics-derivatives/daily/index.html>

according to the defined specification. J-GATE permits a single log-in for one Login ID. The Login ID that has been logged in is forced to be logged out when another log-in is attempted with the same Login ID.

Furthermore, the *arrownet*, which connects TP's systems to OSE/TSE system sites, ensures secure access to J-GATE. The robust optional fiber ring network has totally separate backup route and the cables are 99 % buried in preparation for large-scale disasters, etc. A dedicated system conducts failure monitoring for the specified network devices in 24 hours a day, 365 days a year.

**(7) Emergency Provisions. There are adequate provisions for emergency operations and disaster recovery.**

Refer to the attached Exhibit D-2(7).

**(8) Data Loss Prevention. Trading data is backed up to prevent loss of data.**

Refer to the attached Exhibit D-2(8).

**(9) Contracts Available. Mechanisms are available to ensure that only those futures, option or swap contracts that have been identified to the Commission as part of the application or permitted to be made available for trading by direct access pursuant to the procedures set forth in § 48.10 are made available for trading by direct access.**

J-GATE has a mechanism to configure the products allowed to trade per each Sub-Participant. Therefore, OSE is able to configure J-GATE to allow a Remote TP in the U.S. to trade only the contracts that are permitted to trade by direct access.

**(10) Predominance of the Centralized Market. Mechanisms are available that ensure a competitive, open, and efficient market and mechanism for executing transactions.**

All products that are available for trading through J-GATE can be traded both on the

auction-driven market and the J-NET market. As described in (1) above, order matching and execution are conducted in a competitive, open, and efficient manner on the auction-driven market. On the J-NET market, although transactions are executed on a negotiation basis, a prescribed price range within which trading is conducted for each product and transactions are executed only at a price close to market price. Specifically, the executable price range is set to a prescribed range from the last trade price or a mid-price of the best bid and offer on the auction-driven market.<sup>69</sup>

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<sup>69</sup> OSE sets the executable price range for handling pursuant to Rule 5, Paragraph 3 of the Special Rules for Business Regulations and Brokerage Agreement Standards Relating to the J-NET Market.

**EXHIBIT E – THE TERMS AND CONDITIONS OF CONTRACTS PROPOSED TO BE MADE AVAILABLE IN THE UNITED STATES**

**Exhibit E-1**

Description of the terms and conditions of futures, option or swap contracts intended to be made available for direct access. With respect to each contract, indicate whether the contract is regulated or otherwise treated as a futures, option or swap contract in the regulatory regime(s) of the foreign board of trade’s home country.

*Contracts to be Available for Direct Access*

OSE intends to make the following contracts available for direct access from the U.S.:

Category	Contract
Index Futures Contract	Nikkei Stock Average Index (Nikkei 225) Futures Contract
	Russell/Nomura Prime Index Futures Contract
	Mini Nikkei 225 Index Futures Contract
	Nikkei Stock Average Volatility Index Futures Contract
	Tokyo Stock Price Index (TOPIX) Futures Contract
	Mini TOPIX Futures Contract
	TOPIX Core 30 Futures Contract
	TSE REIT Index Futures Contract
	JPX-Nikkei Index 400 Futures Contract
	TSE Mothers Index Futures Contract
Government Bond Futures Contract	5-year JGB Futures Contract
	10-year JGB Futures Contract
	20-year JGB Futures Contract
	Mini 10-year JGB Futures Contract
Options on Government Bond Futures Contract	Options on 10-year JGB Futures Contract

### *Category under the FIEA*

All the above index futures contracts and Mini 10-year JGB futures contracts are futures contracts falling under the category of “transactions wherein the parties thereto promise to pay or receive the amount of money calculated based on the difference between the figure of a Financial Indicator to which the parties agree in advance ... and the Actual Figure of the Financial Indicator at a fixed time in the future” as prescribed in Article 2, Paragraph 21, Item 2 of the FIEA. Mini 10-year contracts are futures contracts based on prices of 10-year JGB futures.

The government bond futures contracts excluding Mini 10-year JGB futures contracts are futures contracts based on standardized government bond. The position of which neither resale nor repurchase are made by the last trading day shall be settled by paying/receiving deliverable bonds and cash. The contracts are futures contracts falling under the category of “transactions wherein the parties thereto promise to deliver or receive Financial Instruments or consideration for them at a fixed time in the future, and, when the resale or repurchase of the underlying Financial Instruments are made, settlement thereof may be made by paying or receiving the difference” as prescribed in Article 2, Paragraph 21, Item 1 of the FIEA.

The options on 10-year JGB futures contracts are American-type options whose exercise results in transactions in 10-year JGB futures contracts. They are options contracts falling under the category of “transactions wherein the parties thereto promise that one of the parties thereto grants the other party an option to effect a transaction listed in the following items between the parties only by unilateral manifestation of the other party's intention, and the other party pays the consideration for such option” as prescribed in Article 2, Paragraph 21, Item 3 of the FIEA.

### *Contract Specifications*

Refer to Exhibit A-4.

### *Material Changes in Contract Specifications*

(1) Expansion of contract months for Nikkei 225 Futures, effective from July 16, 2013

The contract months for Nikkei 225 Futures and Mini Nikkei 225 Index Futures (Nikkei 225 mini) contracts were expanded on July 16, 2013, in order to improve convenience for market

participants. For Nikkei 225 Futures contracts, the number of contract months was changed to 13 quarterly months (i.e. March, June, September and December contracts). Durations of contract months are five years for June and December contracts and one and a half years for March and September contracts. For Nikkei 225 mini contracts, the number of contract months was changed to 16 months: 13 quarterly months and the nearest three months other than the quarterly months. Durations of contract months are the same as that of Nikkei 225 Futures for quarterly contract months, five months for January, April, July and October contracts and four months for other months.

(2) Harmonization of trading rules for the former TSE contracts, effective from March 24, 2014  
Following the derivatives market integration on March 24, 2014, trading rules for the former TSE contracts<sup>70</sup> were harmonized with those of OSE such that: (a) trading hours in the night session for the former TSE contracts were extended from 11:30 p.m. to 3:00 a.m.; (b) the method of determining price limit range for the former TSE index futures contracts changed from the range in accordance with the base price for price limits (i.e. previous day's settlement price) into 8% of the price for calculating the price limit; and (c) criteria for triggering static circuit breakers were changed into the case where a buy (sell) order is placed (or executed) at the upper (lower) price limit for the central contract month of the futures contract, and no subsequent trades are executed outside 10% of the daily price limit range (in the case of JGB futures contracts, dynamic circuit breaker range) from said upper (lower) price limit in the next minute.

(3) Rule revisions in connection with upgrade of J-GATE, effective from July 19, 2016

(a) Extension of trading hours

The start time of day session for index futures excluding Nikkei 225 VI Futures changed from 9:00 a.m. to 8:45 a.m. The closing time of night session changed from 3:00 a.m. to 5:30 a.m. For Nikkei 225 VI Futures, a night session was established until 7:00 p.m. In addition, non-cancel period ("NCP") was introduced before the opening auction of the day and night sessions and the closing auction of the night session for Nikkei 225 Futures, Nikkei 225 mini and TOPIX Futures. NCP is one-minute period during which new orders can be placed but

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<sup>70</sup> TOPIX Futures Contract, Mini TOPIX Futures Contract, TOPIX Core 30 Futures Contract, TSE REIT Index Futures Contract, JGB futures contracts, and options on JGB futures contracts.

existing orders cannot, in principle, be amended or cancelled.

(b) Change in method of calculating the final settlement price of Nikkei 225 VI

The final settlement price for Nikkei 225 VI futures changed to a special value that is calculated using the opening price of each component issue within 10 minutes from the start time of the day session based on the Nikkei 225 VI calculation. It used to be the average of Nikkei 225 VI values calculated at 15-second intervals during the 10-minute period from the start time of the day session.

**Exhibit E-2**

**Demonstrate that the contracts are not prohibited from being traded by United States persons, i.e., the contracts are not prohibited security futures or single stock contracts or narrow-based index contracts. For non-narrow based stock index futures contracts, demonstrate that the contracts have received Commission certification pursuant to the procedures set forth in § 30.13 and Appendix D to part 30 of this chapter.**

The contracts to be available for direct access do not include security futures contracts, single stock futures contracts and narrow-based index contracts.

The non-narrow based index futures contracts that are included in this form are the index futures contracts that previously have been the subject of a no-action letter of the Commission's Office of the General Counsel<sup>71</sup> or a certification pursuant to Commission Rule 30.13 and which are permitted to be traded by U.S. persons thereunder.<sup>72</sup> These contracts and the date of issuance

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<sup>71</sup> OSE(including TSE before the integration with OSE) filed a statement representing that these contracts remain fully compliant with the requirements of the no-action letter under Commission Rule 30.13(n). See the following letters: Letter of Paul M. Architzel of WilmerHale, LLP. to David A. Stawick, CFTC Secretary, dated October 26, 2011; and Letter of Hironaga Miyama of TSE to CFTC Office of the Secretary, dated April 27, 2012.

<sup>72</sup> The broad-based stock index futures contract that was the subject of an OGC no-action letter, the FTSE Japan Index Futures Contract was delisted in September 2004, and S&P/150 TOPIX 150 Futures Contract, MSCI JAPAN Futures Contract and Nikkei 300 Index Futures Contract were delisted on March 2014. See the following letters:

of the OGC no-action letter or of the certification are as follows:

Contract	Date	NAL/Certification
Nikkei Stock Average Index (Nikkei 225) Futures Contract	01/16/1992	No-Action Letter Received
Tokyo Stock Price Index (TOPIX) Futures Contract	01/16/1992	No-Action Letter Received
Russell/Nomura Prime Index Futures Contract	03/14/2005	No-Action Letter Received
Mini Nikkei 225 Index Futures Contract	07/10/2006	No-Action Letter Received
Mini TOPIX Futures Contract	11/09/2009	No-Action Letter Received
TOPIX Core 30 Futures Contract		
TSE REIT Index Futures Contract		
Nikkei Stock Average Volatility Index	03/10/2012	Certified
JPX-Nikkei Index 400 Futures Contract	10/21/2014	Certified
TSE Mothers Index Futures Contract	07/12/2016	Certified

### Exhibit E-3

#### Demonstrate that the contracts are required to be cleared.

OSE designates JSCC as the clearing organization that conducts financial instruments obligation assumption service relating to transactions executed on the OSE markets.<sup>73</sup> The futures and options transactions executed on the OSE markets are settled between the Clearing Participant of JSCC and JSCC.<sup>74</sup> The FIEA requires a clearing organization to prescribe in its business rule transaction causing obligations subject to Financial Instruments Obligation Assumption

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Letter of Yoshitake Kaneda, Director Osaka Securities Exchange Co., Ltd. to Patrick J. McCarty, CFTC General Counsel, dated August 18, 2004.; Letter of Hiroyasu Ichimoto, Executive Officer Osaka Securities Exchange Co., Ltd. to Mellissa Jurgens, CFTC Secretary, dated March 12, 2014.

<sup>73</sup> Clearing and Settlement Regulations, Rule 3.

<sup>74</sup> Clearing and Settlement Regulations, Rule 4.

Service<sup>75</sup> and kind of Financial Instruments subject to the said transaction.<sup>76</sup> JSCC prescribes, in Rule 3 of the Business Rules, transactions in each derivatives contract executed on the OSE market as such transactions causing obligations subject to financial instruments obligation assumption service.

#### **Exhibit E-4**

**Identify any contracts that are linked to a contract listed for trading on a United States-registered entity, as defined in section 1a(40) of the Act. A linked contract is a contract that settles against any price (including the daily or final settlement price) of one or more contracts listed for trading on such registered entity.**

The products OSE intends to be made available for direct access in this application do not include linked contracts.

The futures contracts on the Dow Jones Industrial Average (OSE DJIA Futures) are available for trading on OSE's market. Since OSE uses the final settlement price for the futures contracts on the Dow Jones Industrial Average listed for trading on the Chicago Board of Trade as the final settlement price for the OSE DJIA Futures contracts, it will be considered as "linked contracts"; however, OSE does not intend to make the OSE DJIA Futures contracts available for trading by direct access. Therefore, OSE DJIA Futures contract is not included as a linked contract in this application.

#### **Exhibit E-5**

**Identify any contracts that have any other relationship with a contract listed for trading on a registered entity, i.e., both the foreign board of trade's and the registered entity's contract settle to the price of the same third party-constructed index.**

Two futures contracts on Nikkei Stock Average ("Nikkei 225") are available for trading on

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<sup>75</sup> Defined in Article 2, Paragraph 28 of the FIEA. It means a clearing operation conducted by a Financial Instruments Exchange Clearing Organization.

<sup>76</sup> See FIEA, Article 156-7, Paragraph 2, Item 2.

OSE's market: Nikkei 225 Futures contracts and Nikkei 225 mini contracts, whose multiplier is ¥1,000 and ¥100 respectively. Three futures contracts on the same underlying, Nikkei 225, are available for trading on Chicago Mercantile Exchange ("CME"), whose multiplier is ¥500, ¥100 and \$5. However, the OSE contracts do not settle to the price of the CME contract and the contracts therefore are not linked contracts. *See*, Commission Rule 48.2.

The final settlement price for Nikkei 225 Futures and Nikkei 225 mini is a Special Quotation calculated based on the total opening prices of each component stock of Nikkei Stock Average on the business day following the last trading day. The final settlement price is calculated by OSE and is used as the final settlement price of the futures contracts on Nikkei 225 listed for trading on CME.

#### **Exhibit E-6**

**Demonstrate that the contracts are not readily susceptible to manipulation. In addition, for each contract to be listed, describe each investigation, action, proceeding or case involving manipulation and involving such contract in the three years preceding the application date, whether initiated by the foreign board of trade, a regulatory or self-regulatory authority or agency or other government or prosecutorial agency. For each such action, proceeding or case, describe the alleged manipulative activity and the current status or resolution thereof.**

#### *Demonstration that Contracts are not Readily Susceptible to Manipulation*

OSE, in order to have been issued a no-action letter by the Office of the General Counsel or certified by CFTC, demonstrated that each index futures contract respectively satisfied the statutory standards that: 1) the contract must be cash-settled; 2) trading in the contract shall not be readily susceptible to manipulation; and 3) such group or index of securities shall not constitute a narrow-based security index. These contracts remain in compliance with these requirements and the terms of the OGC no-action letter or certification.

As discussed in greater detail in Exhibit G-4, OSE and JPX-R conducts real-time and post-trading surveillance, in order to detect and prevent unfair trading such as market manipulation. In addition, JPX-R is a member of Inter-market Surveillance Group ("ISG"),

which consists of world major self-regulatory organizations. ISG members share knowledge or experience for effective market surveillance corresponding to internationalization of and sophistication of financial markets, which enhances JPX-R’s capability of market surveillance.

*Cases of Investigation*

Out of the results of investigation relating to futures and options on futures contracts currently listed for trading on the OSE market, the Market Surveillance and Compliance Department of JPX-R(including the Market Surveillance Department of OSE before the entrustment of self-regulatory operations) reported the following cases suspicious of unfair trading to Securities and Exchange Surveillance Commission (“SESC”), a government regulatory body, from three years before the initial Application.

No.	Contracts	Incidents
1	Nikkei 225 Futures, Nikkei 225 mini	Correction or cancellation of large-sized orders during the order acceptance period before opening of auction market
2	Nikkei 225 Futures, Nikkei 225 mini	Correction or cancellation of large-sized orders during auction trading
3	Nikkei 225 mini	Correction or cancellation of large-sized orders during the order acceptance period before closing of night session
4	10-year JGB Futures	Correction or cancellation of large-sized orders during auction trading
5	TOPIX Futures	Correction or cancellation of large-sized orders during auction trading

*Cases of Disciplinary Actions being Taken*

The followings are the cases that disciplinary actions were taken with respect to manipulation of futures and options on futures contracts currently listed on the OSE markets from three years before the initial Application:

Company	Cause of Disciplinary Action	Administrative Action	OSE's Action
Musashi Securities Co., Ltd.	<ul style="list-style-type: none"> <li>• Market manipulation of TOPIX Futures Contract on proprietary account<sup>77</sup></li> <li>• Improper internal trading surveillance structure of market derivatives trading pertaining to securities on proprietary account</li> </ul>	<ul style="list-style-type: none"> <li>• Suspension of its operation concerning market derivatives trading pertaining to securities on proprietary account for predetermined period</li> <li>• Order of improvement in its operation including implementation of measures for fostering compliance with laws and regulations</li> <li>• Order of administrative monetary penalty payment</li> </ul>	<ul style="list-style-type: none"> <li>• Suspension of its operation concerning market derivatives trading pertaining to securities on proprietary account for predetermined period on the OSE markets</li> <li>• Fine of JPY 80 million</li> <li>• Request for the submission of business improvement report</li> </ul>

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<sup>77</sup> Investigation Case No.5

## **EXHIBIT F – THE REGULATORY REGIME GOVERNING THE FOREIGN BOARD OF TRADE IN ITS HOME COUNTRY OR COUNTRIES**

**(1) Description of the regulatory regime/authority’s structure, resources, staff, and scope of authority; the regulatory regime/authority’s authorizing statutes, including the source of its authority to supervise the foreign board of trade; the rules and policy statements issued by the regulator with respect to the authorization and continuing oversight of markets, electronic trading systems, and clearing organizations; and the financial protections afforded customer funds.**

### *Applicable Law*

The regulatory framework governing OSE is established by the FIEA. The FIEA was enacted in September 2007 by amending and renaming the Securities and Exchange Law, and by moving the regulation of the sale and solicitation of financial instruments from its own discrete set of regulations to the broader law which applies generally to all financial instrument firms. The FIEA was enacted to: establish an over-all framework for a wide range of financial instruments and services; enhance disclosure requirements; provide organizational structures for the self-regulatory functions of financial instruments exchanges; and increase maximum criminal penalties against market fraud.

The FIEA broadened the scope of existing regulations in order to eliminate the different regulations for financial instruments whose economic functions were identical. This helped establish a single framework for a wide range of financial instruments and services. Specifically, the FIEA developed a comprehensive definition of a “derivative transaction” to include futures, forwards, options, swaps and credit derivatives.<sup>78</sup> This new definition greatly expanded the scope of regulated financial instruments and services.<sup>79</sup>

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<sup>78</sup> See, FIEA, Article 2 Paragraphs 21 and 22 with respect to derivatives or market transactions of derivatives, respectively.

<sup>79</sup> Additionally, the FIEA enhanced disclosure requirements by introducing a quarterly reporting system and internal control reporting system for listed companies. The internal control reporting system mirrors the Sarbanes-Oxley Act

In addition, to ensure user protection, to secure fairness and transparency of trading and to establish public confidence in the markets, the FIEA increased maximum criminal penalties against various market abuses and misconduct. The criminal penalties for unfair trading, spreading of rumors, use of fraudulent means and market manipulation were raised for individuals to incarceration for a maximum period of 10 years or the assessment of a maximum of ¥10 million (approximately \$85.8 thousands) in fines or a combination thereof.<sup>80</sup> Criminal penalties for corporations with dual liability were raised to a maximum fine of ¥700 million (approximately \$6.0 million).<sup>81</sup> The FIEA also imposes civil penalties for making false statements, spreading of rumors, trading by fraudulent means, market manipulation and insider trading, where the amount of penalty imposed is to be the amount of the financial benefit received as a result of such misconduct.<sup>82</sup>

Furthermore, the FIEA provides that a financial instruments exchange is required to have in place an appropriate self-regulatory framework.<sup>83</sup> Financial instruments exchanges can delegate their self-regulatory functions to either a self-regulatory organization, which is a separate entity specialized for self-regulatory operations and for which the approval of the Commissioner of FSA is necessary,<sup>84</sup> or to an independent self-regulatory committee within the

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in the U.S. For example, quarterly financial statements attached to quarterly reports are subject to audits by certified public accountants or auditing firms and the submission of false quarterly reports is subject to criminal and civil money penalties. Additionally, reports evaluating internal controls of financial reporting are mandatory and management must submit a certification stating that the financial statements are appropriate under the FIEA.

<sup>80</sup> See FIEA, Article 197, Paragraph 1.

<sup>81</sup> See FIEA, Article 207, Paragraph 1.

<sup>82</sup> See FIEA, Articles 172, 172-2, 173, 174 and 175.

<sup>83</sup> See FIEA, Article 84, Paragraph 2. Such self-regulatory operations include the financial instruments exchange's operations for listing and delisting of financial instruments, financial indicators and options, and the investigation of Trading Participants with respect to their adherence to laws and regulations, the exchange rules, or the just and equitable principles of trade.

<sup>84</sup> See FIEA, Article 85.

same organization.<sup>85</sup>

A self-regulatory organization conducts self-regulatory operations for financial instruments exchanges under entrustment from the financial instruments exchanges. It may be established only by a financial instruments exchange or financial instruments exchange holding company, and its member is limited to financial instruments exchanges or financial instruments exchange holding companies.<sup>86</sup> It must obtain authorization from the Prime Minister of Japan when it intends to conduct self-regulatory operations.<sup>87</sup> It may not engage in operations for profit, and not conduct any operations other than self-regulatory operations and the operations incidental thereto.<sup>88</sup> Also, it may not re-entrust the self-regulatory operations that has been entrusted from a financial instruments exchange to another entity.<sup>89</sup> It has a president, board members and auditors, and the majority of the board members must be outside board members. Decisions on material issues are made in the council meeting, and a resolution of the meeting is adopted by a majority of the board members present and by a majority of outside board members present, when a majority of board members are present. A financial instruments exchange that entrusts self-regulatory operations must obtain the consent of the self-regulatory organization when it intends to amend or abolish matters related to self-regulatory operations prescribed in its rules.

#### *Regulatory Authority*

The Prime Minister has supervisory authority over all financial instruments exchanges in Japan and is authorized to grant licenses to financial instruments exchanges and to approve changes in their Articles of Incorporation, Business Regulations or Brokerage Agreement Standards, and listing of securities issued by financial instruments exchanges or derivatives contracts on such securities.<sup>90</sup> The Prime Minister has delegated these powers, other than the authority to grant licenses to financial instruments exchanges, to the Commissioner of the FSA, which was

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<sup>85</sup> See FIEA, Article 105-4.

<sup>86</sup> See FIEA, Articles 102-3 and 102-12.

<sup>87</sup> See FIEA, Article 102-14.

<sup>88</sup> See FIEA, Articles 102-21 and 102-22.

<sup>89</sup> See FIEA, Article 102-19.

<sup>90</sup> See FIEA, Chapter 5; Articles 80, 81, 82, 122 and 149.

established in July 2000.

The FSA is responsible for ensuring the stability of Japan's financial system, for protecting investors by, among other things, establishing rules for trading in financial instruments markets, inspecting and supervising market participants and related parties, such as financial instruments exchanges, and surveying compliance of rules in financial instruments markets and for facilitating financial services. The FSA has an authorized staff of up to 1,571<sup>91</sup> and is organized into seven major components: the Administrative Law Judge, the Planning and Coordination Bureau, the Inspection Bureau, the Supervisory Bureau, Vice Minister for International Affairs, the Securities and Exchange Surveillance Commission ("SESC") and the Certified Public Accountants and Auditing Oversight Board.

The SESC oversees the financial instruments markets, and the implementation of the FIEA expanded the authorities of the SESC. The SESC has a staff of 763 (411 in the SESC office, 352 in local offices) and is directed by a Chairman and two Commissioners appointed by the Prime Minister with the consent of both houses of the National Diet of Japan.<sup>92</sup> To ensure their independence when exercising their authorities, these officials cannot be dismissed against their will during their three year terms. The SESC's Executive Bureau is composed of six independent divisions: the Coordination Division, the Market Surveillance Division, the Inspection Division, the Administrative Monetary Penalty Division, the Disclosure Statements Inspection Division and the Investigation Division. The English language web site of the SESC is at: <http://www.fsa.go.jp/sesc/english/index.htm>.

The SESC conducts: daily market surveillance; inspections of market participants and related parties; investigations into criminal cases and accusation thereof; compliance reviews of market intermediaries; examinations of disclosure documents; and investigations into acts suspected to have compromised fairness of financial instruments trading. The SESC monitors financial instruments markets every day and may require financial instruments business operators to

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<sup>91</sup> The staff number represents the 2016 fiscal year, which is from April 1 to the following March 31.

<sup>92</sup> The staff number represents the 2016 fiscal year. The present Chairman is Mitsuhiro Hasegawa, and the Commissioners are Yasushi Hamada and Mami Indou.

submit detailed reports or materials related to any specific transactions. Where it is convinced after an investigation, the SESC may recommend administrative disciplinary actions or file formal complaints with the public prosecutors. Additionally, the SESC is empowered to file motions with the court for prohibition or suspension of acts violating the FIEA.

#### *Requirements relating to Exchange Operation*

Under the FIEA, financial instruments exchanges are required to include detailed provisions within their rules relating to: matters relating to TPs; matters relating to clearing margins (including deposit and management of clearing margins; provided, however, excluding the case of having other financial instruments clearing organization conduct financial instruments obligation assumption service);<sup>93</sup> matters relating to kind and period of market transactions of derivatives, starting, ending and suspending market transactions of derivatives, methods of conclusion of a contract for market transactions of derivatives, method of transfer and other settlement for market transactions of derivatives and other matters necessary for market transaction of derivatives.<sup>94</sup>

Additionally, financial instruments exchanges must require TPs to conform to the FIEA and all related laws, regulations and government orders. Specifically, financial instruments exchanges must be operated to achieve the fair and orderly sale and purchase of securities and market transactions of derivatives, as well as to conduct market surveillance and to contribute to the protection of investors.<sup>95</sup> OSE provides that TPs must ensure fair pricing and orderly circulation on the OSE markets, and use their best efforts to preserve and improve the function of the OSE as a financial instruments exchange.<sup>96</sup>

## **(2) Description of and, where applicable, copies of the laws, rules, regulations and policies applicable to:**

### **(i) The authorization, licensure or registration of the foreign board of trade.**

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<sup>93</sup> See FIEA, Article 119.

<sup>94</sup> See FIEA, Article 117.

<sup>95</sup> See FIEA, Article 110.

<sup>96</sup> Trading Participant Regulations, Rule 4.

The FIEA provides that no person other than an Authorized Financial Instruments Firms Association may establish a Financial Instruments Market unless said person has obtained a license from the prime minister.<sup>97</sup> The criteria for examination of the license are as the following: (a) the provisions of the articles of incorporation, the operational rules and the brokerage contract rules conform to laws and regulations, and are sufficient for achieving fair and smooth sale and purchase of securities and Market Transactions of Derivatives on the Financial Instruments Exchange Market as well as for protection of investors; (b) the applicant for license has a personnel structure sufficient for appropriately operating the Financial Instruments Exchange Market; and (c) the applicant for license will be organized as a Financial Instruments Exchange in such a manner that conforms to the provisions of the FIEA.<sup>98</sup>

**(ii) The regulatory regime/authority's program for the ongoing supervision and oversight of the foreign board of trade and the enforcement of its trading rules.**

When the Prime Minister finds it necessary and appropriate for the public interest or protection of investors, he/she may order a financial instruments exchange to change its articles of incorporation and/or operational rules or trade practice.<sup>99</sup> For other regulatory regime for the ongoing supervision and the enforcement of its trading rules, please refer to (4) below.

**(iii) The financial resource requirements applicable to the authorization, licensure or registration of the foreign board of trade and the continued operations thereof.**

Under the FIEA, the amount of the stated capital of a Stock Company-Type Financial Instrument Exchange must be ¥1 billion (approximately \$8.6 million) or more.<sup>100</sup> When a Stock Company-Type Financial Instruments Exchange intends to reduce the amount of its stated capital, it is required to obtain an authorization from the Prime Minister. On the other hand, when it intends to increase the amount of its stated capital, it is required to notify to that effect to the Prime Minister.<sup>101</sup>

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<sup>97</sup> FIEA Article 80, Paragraph 1.

<sup>98</sup> See Article 82, Paragraph 1, Item 1 of the FIEA.

<sup>99</sup> See Article 153 of the FIEA.

<sup>100</sup> See Article 83-2 of the FIEA and Article 19 of the Order for Enforcement of the FIEA.

<sup>101</sup> See Article 105 of the FIEA.

**(iv) The extent to which the IOSCO Principles are used or applied by the regulatory regime/authority in its supervision and oversight of the foreign board of trade or are incorporated into its rules and regulations and the extent to which the regulatory regime/authority reviews the applicable trading systems for compliance therewith.**

The Japan's FSA adopted the IOSCO Principles. OSE has developed and operates the J-GATE under the supervision of the FSA that adopted the IOSCO Principles. OSE is subject to inspection by the FSA on an irregular basis, as part of which the FSA conducts inspection on OSE's systems including J-GATE. In addition, in case of system replacement or major update, OSE reports to the FSA the contents of the development and the progress thereof. The FSA may conduct inspection on such development, etc.

**(v) The extent to which the regulatory regime/authority reviews and/or approves the trading rules of the foreign board of trade prior to their implementation.**

When a Financial Instruments Exchange intends to amend its articles of incorporation, business regulations and brokerage agreement standards, it is required to obtain authorization from the Prime Minister. Also, when it intends to amend other rules, it is required to notify to the Prime Minister to that effect.<sup>102</sup>

**(vi) The extent to which the regulatory regime/authority reviews and/or approves futures, option or swap contracts prior to their being listed for trading.**

When a financial indicator (index) underlying index futures contracts, a financial instruments (standardized government bond) underlying government bond futures contracts and options are to be listed<sup>103</sup>, the Business Regulations and other related rules must be amended. Therefore, OSE must obtain authorization of the amendment from the Prime Minister. For the authorization, the FSA, to which the Prime Minister delegates its authority, examines the amendment.

After the rule amendment is authorized and the new listing is determined, the listing of the

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<sup>102</sup> See Article 149 of the FIEA.

<sup>103</sup> Under the FIEA, the subject of listing is a financial indicator for index futures contracts.

financial indicator, etc. must be notified to the Prime Minister. The notification is made to a commissioner of the finance bureau of the Ministry of Finance of Japan, to which the FSA entrusts a part of its business.

**(vii) The regulatory regime/authority’s approach to the detection and deterrence of abusive trading practices, market manipulation, and other unfair trading practices or disruptions of the market.**

The FIEA prohibits trading activities harming market fairness. These include, among others, spreading false rumors,<sup>104</sup> engaging in insider trading<sup>105</sup>, engaging in market manipulation,<sup>106</sup> and engaging in misleading or false transactions.<sup>107</sup> If the FIEA’s provisions on unfair trading activities are considered to be violated, the SESC may recommend to the Prime Minister and the Commissioner of the FSA that an order to pay administrative penalties be issued.

In addition, the SESC works closely with self-regulatory organizations (“SROs”), particularly self-regulatory departments at financial instruments exchanges. The SESC and SROs share information regarding market oversight and surveillance on issues such as insider trading and transaction management. Additionally, the SESC is authorized to conduct inspections of the SROs to check if they are carrying out their self-regulatory duties and properly sanctioning their TPs for violations of their self-regulatory rules.

In addition, the SESC may submit to the Prime Minister, the Commissioner of the FSA or the Minister of Finance policy proposals that are considered necessary to ensure fairness in financial instruments transactions or investor protection, based on the results of the SESC market surveillance, inspections or investigations. For example, if current laws and regulations are found to be insufficient, the SESC proposes reviewing the current laws and regulations by presenting specific facts and problems with such laws and regulations.

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<sup>104</sup> See FIEA, Article 158

<sup>105</sup> See FIEA, Article 166.

<sup>106</sup> See FIEA, Article 159.

<sup>107</sup> See FIEA, Article 157.

**(3) A description of the laws, rules, regulations and policies that govern the authorization and ongoing supervision and oversight of market intermediaries who may deal with members and other participants located in the United States participants, including:**

**(i) Recordkeeping requirements.**

**(ii) The protection of customer funds.**

**(iii) Procedures for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.**

Remote TPs, including those in the U.S., must designate an Agency Clearing Participant to which they entrust clearing of transactions for their own. An entity eligible to become an Index Futures, etc. Agency Clearing Participant and a Government Bond Futures, etc. Agency Clearing Participant of JSCC must be type-I financial instruments business operator or registered financial institution, both of which are subject to the FIEA and the oversight of the FSA to which the Prime Minister delegates its authority.

The type-I financial instruments business operator or registered financial institution that is an Agency Clearing Participant must prepare and maintain a trade record relating to the brokerage for clearing of securities, etc. and retain said record for ten years.<sup>108</sup> The brokerage for clearing of securities, etc. means making the obligation arisen from a transaction conducted by a financial instruments business operator or registered financial institution under entrustment by a customer and for the account of the customer assumed by a financial instruments clearing organization.<sup>109</sup>

For preservation of customer assets, a financial instruments business operator or registered financial institution are required to segregate customer funds and securities from their proprietary funds and securities.<sup>110</sup>

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<sup>108</sup> See Cabinet Office Ordinance on Financial Instruments Business, etc., Article 157.

<sup>109</sup> See FIEA, Article 2, Paragraph 27.

<sup>110</sup> See FIEA, Articles 43-2, Paragraph 1, Item 1 and Paragraph 2, Item 1.

**(4) Description of the regulatory regime/authority’s inspection, investigation and surveillance powers; and the program pursuant to which the regulatory regime/authority uses those powers to inspect, investigate, and enforce rules applicable to the foreign board of trade.**

The FIEA requires a financial instruments exchange to notify or submit documents concerning its operation, etc. For instance, when a financial instruments exchange suspends, or cancels suspension of, trading of financial instruments, etc listed on its market, it must notify the Prime Minister to that effect.<sup>111</sup> Also, it must report to the Prime Minister trading volume and opening, high, low and closing prices for each listed instrument.<sup>112</sup> Furthermore, pursuant to the Article 188 of the FIEA, a financial instruments exchange must periodically submit financial statements and business report, as well as documents stating maintenance and management conditions of the systems to the Commissioner of the FSA. Also in cases where it takes a disciplinary action against its TP pursuant to its Articles of Incorporation or where a system failure occurs, it must submit related documents to the Commissioner of the FSA. In addition, the FSA, as a regulatory authority, ensures effectiveness of supervision by inspecting a financial instruments exchange on an irregular basis.

One of the strongest tools for supervisory enforcement is the Prime Minister’s ability to order the financial instruments exchange to dismiss any officer of a financial instruments exchange that has violated laws and regulations, the exchange’s own articles of incorporation or the disposition of any government agency.<sup>113</sup> This also applies to officers of self-regulatory organizations and to members of self-regulatory committees.

In addition, the Prime Minister may order a financial instruments exchange, its subsidiary company or a party that received entrustment of business from the exchange to produce any information or materials that will be helpful for understanding the operation of its business or its property. This includes inspection authority with respect to operation of the exchange or

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<sup>111</sup> See FIEA, Article 128.

<sup>112</sup> See FIEA, Article 131.

<sup>113</sup> See FIEA, Article 150.

intermediation business.<sup>114</sup>

Finally, the Prime Minister may order a financial instruments exchange to make specific improvements in its operations, to rescind its license, or to take other disciplinary action. These authorities are contained in Articles 152 and 153 of the FIEA. For example, under the FIEA, Article 152, the Prime Minister may suspend a financial instruments exchange's license for failing to exercise its powers or to take any other necessary measures for enforcing the obligations of its TPs that are in violation of any law or regulation, or committing an act contrary to the fair and equitable principles of transactions. In addition, under Article 153, the Prime Minister may require a financial instruments exchange to undertake certain supervisory measures with regard to compliance with applicable law and regulations, if it is found necessary and appropriate for the public interest or protection of investors.

**(5) For both the foreign board of trade and the clearing organization (unless addressed in Supplement S-1), a report confirming that the foreign board of trade and clearing organization are in regulatory good standing, which report should be prepared subsequent to consulting with the regulatory regime/authority governing the activities of the foreign board of trade and any associated clearing organization.**

Refer to the attached Exhibit F(5).

**(6) For both the foreign board of trade and the clearing organization (unless addressed in Supplement S-1), a confirmation that the regulatory regime/authority governing the activities of the foreign board of trade and the clearing organization agree to cooperate with a Commission staff visit subsequent to submission of the application on an “as needed basis,” the objectives of which will be to, among other things, familiarize Commission staff with supervisory staff of the regulatory regime/authority; discuss the laws, rules and regulations that formed the basis of the application and any changes thereto; discuss the cooperation and coordination between the authorities, including, without limitation, information sharing arrangements; and discuss issues of concern as**

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<sup>114</sup> See FIEA, Article 151.

**they may develop from time to time (for example, linked contracts or unusual trading that may be of concern to Commission surveillance staff).**

Refer to the attached Exhibit F(6).

## **EXHIBIT G – THE RULES OF THE FOREIGN BOARD OF TRADE AND ENFORCEMENT THEREOF**

### **Exhibit G-1**

#### **Description of the foreign board of trade’s regulatory or compliance department, including its size, experience level, competencies, duties and responsibilities.**

Under the OSE’s Articles of Incorporation, TPs must abide by the FIEA and its related laws and regulations, dispositions given by government agencies based thereon, the OSE’s own Articles of Incorporation, Business Regulations, Brokerage Agreement Standards and other rules, and just and equitable principles of trade.<sup>115</sup> OSE promulgates rules concerning self-regulatory operations to ensure that its TPs remain in compliance with these requirements.

In order to ensure independence of self-regulatory operations, OSE entrusts examination on qualifications of TPs, investigations into TPs complying with laws and regulations, examination of derivatives trading, and services regarding disciplinary actions and other measures. The departments of JPX-R related to self-regulatory operations of the OSE markets are described below.

#### **(A) Participants Examination & Inspection Department**

The operations of the Participants Examination & Inspection are divided into the following three categories: (a) decision of disciplinary actions and other measures against TPs; (b) examination on Trading Qualification of TPs; and (c) inspection of TPs. As of the end of November 2016, 37 staff members engage in the operations of the Participants Examination & Inspection. The function and experience of key staff member are as follows:

##### **Director (one)**

Function: Supervises the Participants Examination & Inspection Department

Experience: Engages in participant affairs operations, etc. for 32 years in JPX group

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<sup>115</sup> Articles of Incorporation, Article 45.

General Managers (ten)

One in charge of the general affair and planning

Function: Supervises the general affair and planning of the Department

Experience: Engages in participant affairs operations, etc. for 23 years in JPX group

One in charge of the monitoring

Function: Supervises the offsite monitoring of the TPs

Experience: Engages in participant affairs operations, etc. for 26 years in JPX group

Two in charge of the examination and information

Function: Supervises the inspection process and examine the inspection results of the TPs

Experience: Engages in participant affairs operations, etc. for average 27 years in JPX group

Six in charge of the inspection

Function: Supervises the inspection of the TPs

Experience: Engages in participant affairs operations, etc. for average 28 years in JPX group

(B) Market Surveillance & Compliance Department

The operations of the Market Surveillance & Compliance Department are divided into the following three categories: (a) Examination on securities and derivatives trading, (b) issue of warnings, etc. against TPs and listed companies in relation to securities and derivatives trading, (c) guide, advice and education in order to prevent violation of laws and regulations concerning securities and derivatives trading. In September 2015, International Surveillance Office was established under Market Surveillance & Compliance Department as a specialized unit to conduct market surveillance of cross-border transactions. The office also studies regulations and trends outside Japan regarding unfair trading and seek cooperation with foreign self-regulatory organizations.

As of the end of November 2016, 69 staff members (52 in Tokyo and 17 in Osaka) engage in the operations of the Market Surveillance & Compliance Department. The function and experience of key staff members are as follows:

Director (two) (two years of experience on average)

Function: Supervises market surveillance operations

Experience: Engaged in securities trading operations, etc.

#### General Manger (four)

One in charge of general affair and planning (nine years of experience):

Function: Supervises general affair and planning group

Experience: Engaged in market surveillance operations

Two in charge of surveillance of securities trading (sixteen years of experience on average):

Function: Supervises the securities trading surveillance group

Experience: Engaged in the market surveillance operations, etc.

One in charge of surveillance of derivatives trading (twelve years of experience):

Function: Supervises the derivatives surveillance group

Experience: Engaged in the market surveillance operations, etc.

#### Head of International Surveillance Office (one) (ten years of experience)

Function: Supervises the international surveillance office

Experience: Engaged in the market surveillance operations and information sharing with foreign self-regulatory organizations, etc.

OSE fulfills its self-regulatory responsibilities in a manner comparable to designated contract markets in the U.S. OSE has a comprehensive rule book requiring that TPs, among other things: have adequate capital, employ sound internal management and risk controls, establish transaction management systems, prevent unfair trading, ensure fair pricing, investigate customers qualifications, provide OSE with requested information, submit to inspection by OSE and register representatives with OSE.<sup>116</sup>

## **Exhibit G-2**

### **Description of the foreign board of trade's trade practice rules**

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<sup>116</sup>Trading Participant Regulations, Rules 4, 17, 21, 21-3, 30; Rules Concerning Examinations on Obtainment of Trading Qualifications, Rule 2.

OSE rules prohibit TPs from acting “contrary to the just and equitable principles of trade.”<sup>117</sup> Such actions are defined in the rule as actions that “damage the credibility of OSE or TPs of OSE, or are contrary to good faith in respect of OSE or TPs of the OSE” and 1) interfering with or obstructing business of OSE or its TPs; 2) fraudulent, dishonest or improper activities or gross negligence in administering transaction business or 3) accumulating and selling stocks at a profit to a party related to the company that issued such stocks against their will by abusing dominant bargaining position.<sup>118</sup> Additionally, OSE has a general requirement that TPs make “best efforts” to preserve and improve the function of the OSE markets.<sup>119</sup> OSE, in addition to the rules and regulations already in place, may prescribe additional regulations in relation to the efficient operation of OSE markets.<sup>120</sup>

OSE has promulgated rules detailing the requirements of brokerage agreements. The OSE’s Brokerage Agreement Standards (including the Special Rules<sup>121</sup>) include conditions for acceptance of orders, methods of settlement, customer’s clearing margin requirements, confirmations and various other matters with which customers and TPs must comply. In these rules, OSE requires a customer to set up an account for futures/options trading with a TP, and to submit to the TP “Agreement for Setting up Futures/Options Trading Account” in the form specified by OSE.<sup>122</sup> The agreement shall be submitted for the purpose of verifying the customer’s intention to comply with the FIEA and other related laws, rules and regulations of OSE and JSCC, and to acknowledge the matters stipulated in the agreement.

In addition, OSE requires TPs to establish systems which prevent the acceptance and entry of erroneous customer orders.<sup>123</sup> OSE also requires that TPs establish transaction management

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<sup>117</sup> Trading Participant Regulations, Rule 51

<sup>118</sup> *Id.*

<sup>119</sup> Trading Participant Regulations, Rule 4.

<sup>120</sup> Business Regulations, Rule 59.

<sup>121</sup> Special Rules for Business Regulations and Brokerage Agreement Standards Relating to J-NET Market.

<sup>122</sup> Brokerage Agreement Standards, Rule 5.

<sup>123</sup> *See* Rules concerning Order Management Systems at Trading Participants; and Trading Participant Regulations, Rule 21-2.

systems relating to the prevention of unfair trading practices in accordance with the stipulations of OSE.<sup>124</sup> OSE prohibits the abuse of the customer's orders, including the practice of trading ahead of customer orders by TPs.<sup>125</sup> When conducting an inspection, the inspectors check the existence and adequacy of the TP's internal control system to prevent such abuses and whether such abuses have occurred.<sup>126</sup>

OSE may, when inspecting the TP's observance of the laws and regulations or of the OSE's rules etc., or in other cases where OSE deems it necessary in the light of the objectives of OSE and the operation of the OSE markets, demand the TP to submit a report or document relevant to the TP's operation or property, or may inspect the actual state of the TP's operation or property, or its books, documents or other materials.<sup>127</sup> This authority provides OSE with the ability to obtain from TPs information necessary for OSE to complete effective rule enforcement and investigations.

As discussed in more detail in Exhibit G-4, OSE and JPX-R, in order to ensure fair and smooth trading on the OSE markets, conducts real-time and post-trading surveillance, including providing for an audit trail that captures trade-related data. Also as discussed in greater detail below, OSE has the authority to impose sanctions and discipline TPs for violations.

In addition to its authority to discipline TPs for violative conduct, OSE has a number of

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<sup>124</sup> Trading Participant Regulations, Rule 21.

<sup>125</sup> See, Rules Regarding Just and Equitable Principles of Trade, Rule 4, Paragraph 1, Item 7 and Rule 3, Item 5(violation of the just and equitable principles of trade). The abuse of customer orders is also prohibited under Article 117 (1) (x), (xi), (xii) and (xxiv) of the Cabinet Office Ordinance regarding the Financial Instruments Business.

<sup>126</sup> A type-I Financial Instruments Business Operator that is a TP of OSE is also required to be a member of the Japan Securities Dealers Association ("JSDA"), an Authorized Financial Instruments Firms Association. The JSDA is a self-regulatory organization which has authority to promote fair practices and prescribe rules to eliminate unfair trading. The rules and the guidelines prescribed by JSDA require a type-I financial instruments business operator to establish the internal control system for preventing the actions prohibited under the FIEA.

<sup>127</sup> Trading Participant Regulations, Rule 17.

additional authorities with which it can address market irregularities. For example, OSE has various authorities to control trading such as temporarily changing the trading hours prescribed, temporarily suspending trading totally or partially, temporarily holding a trading session and even cancelling or suspending transactions.<sup>128</sup> Furthermore, OSE has the authority to take emergency actions. Under this emergency authority, OSE may impose necessary and appropriate regulations relating to the business of TPs if OSE considers there is an urgent need thereof.<sup>129</sup>

Moreover, OSE has rules to promote transparency in market operations. For example, OSE notifies TPs and interested members of the public, such as the press, through the market data system or the website with respect to the total transacted amounts each day on the OSE markets.<sup>130</sup> Likewise, in compliance with Article 131 of the FIEA, OSE provides reports to the Prime Minister of the total trading volume each day on OSE markets.<sup>131</sup> Furthermore, OSE will make reports to the press and public concerning the condition of the OSE markets if necessary, but TPs are prohibited from making such reports or engaging in similar acts.<sup>132</sup>

#### *Margin Rules*

OSE has rules for matters related to Clearing Margin for futures and options contracts. While those for Clearing Participants (“CPs”) of JSCC are prescribed by JSCC, such matters for TPs that do not have a Clearing Qualification of JSCC (“Non-CPs”) and those for between customers and TPs are prescribed by OSE. As noted above, Remote TPs clear through an Agency Clearing Participant and therefore will be subject to OSE’s clearing margin rules.

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<sup>128</sup> Business Regulations, Rules 18, 20, 25, 32 and 33.

<sup>129</sup> Trading Participant Regulations, Rule 23.

<sup>130</sup> Business Regulations, Rule 48.

<sup>131</sup> Business Regulations, Rule 49.

<sup>132</sup> Business Regulations, Rule 50.

The definition and purpose of Clearing Margin<sup>133</sup> is the same as those in JSCC's margin rules. However, in OSE's margin rules, a margin other than Clearing Margin is also defined as the one to ensure that a customer's obligations related to futures and options trading to its TP are fulfilled.<sup>134</sup>

When a sale or purchase of futures contracts for the proprietary account or customers' accounts, or a sale of options contracts (i.e. options on futures, index options and/or security options contracts - but as applicable to this application, only options on futures) is concluded, a Non-CP is required to submit to or deposit with its Designated CP the Clearing Margin in an amount not less than the Clearing Margin Requirement prescribed by JSCC by the time specified by the Designated CP that is no later than 12:00 noon of the day following the date on which the contract was executed.<sup>135</sup> Also, when there is a deficit in the amount of the Clearing Margin respectively for its proprietary account or customers' accounts deposited, the Non-CP must submit to or deposit with the Designated CP the additional Clearing Margin, in an amount not less than the shortfall, by the time specified by the Designated CP that is no later than noon of the day following the occurrence of the shortfall.<sup>136</sup>

A Non-CP, acting as the agent, shall deposit with its Designated CP the Clearing Margin submitted by a customer. However, when Customer Margin<sup>137</sup> is deposited by a customer, the Non-CP shall deposit with its Designated-CP its own money or securities as the Clearing Margin, in an amount not less than the amount deposited by the customer.<sup>138</sup> Also, a Non-CP

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<sup>133</sup> Clearing Margin is a margin deposited with JSCC for the purpose of ensuring that a CP's obligations to JSCC, a Non-CP's obligations to its Designated CP or a customer's obligations to its TP related to futures and options trading are fulfilled.

<sup>134</sup> Rules on Margin, Rule 3.

<sup>135</sup> Rules on Margin, Rule 5, Rule 6 and Rule 8.

<sup>136</sup> Rules on Margin, Rule 9.

<sup>137</sup> Customer Margin means the margin deposited with a Non-CP, etc. by the customer in cases where the Non-CP, etc. deposit or submit as Clearing Margin their own money or securities in an amount not less than the amount deposited in lieu of the deposited margin with an approval of the customer.

<sup>138</sup> Rules on Margin, Rule 6.

is required to notify its Designated CP of the sum total of the Clearing Margin Requirements for its proprietary account and customers' accounts for each trading day by the time specified by the Designated CP.<sup>139</sup> With respect to the notification, upon request of its Designated CP, Non-CPs shall immediately report to the Designated CP in writing on the number of customer account positions and other matters relating to customer account futures and options trading which JSCC deems necessary.<sup>140</sup>

On the other hand, when margin deposits submitted to or deposited with a TP by a customer, the amount of which is obtained by adding/subtracting the amount of money to be paid/received (i.e. the amount calculated by adding options premiums to the mark-to-market results for futures contracts) to/from the margin deposited by a customer with the TP, are less than Customer's Margin Requirement prescribed by JSCC, or when the amount of money submitted or deposited by the customer as the margin is less than the amount of money to be paid, the customer is required to submit to or deposit with the TP the difference between the margin deposits and the Customer's Margin Requirement, or the difference between the amount of money submitted or deposited by the customer as the margin and the amount of money to be paid, whichever greater, by the time specified by the TP on the day following the occurrence of such deficit.<sup>141</sup>

Furthermore, OSE has strict rules governing a TP's ability to withdraw margin deposits. If the total amount of margin deposited by a customer exceeds the Margin Requirement, a TP may allow the customer to withdraw the substitute securities up to the exceeding amount, or the money up to the exceeding amount or up to the excess cash amount, whichever smaller, only if there is still an excess cash margin deposited after the withdrawal (i.e. the amount of money deposited as margin exceeds the amount of money to be paid).<sup>142</sup> Additionally, if an unrealized profit (i.e. a mark-to-market profit) for futures contracts arises in a customer's position and the total amount of margin deposited exceeds the Margin Requirement, a TP may, upon request by the customer, pay the customer cash equivalent to such unrealized profit up to

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<sup>139</sup> Rules on Margin, Rule 12.

<sup>140</sup> Rules on Margin, Rule 13.

<sup>141</sup> Rules on Margin, Rule 30.

<sup>142</sup> Rules on Margin, Rule 35.

the exceeding amount.<sup>143</sup>

### **Exhibit G-3**

#### **Description of the foreign board of trade's disciplinary rules**

OSE, in fulfillment of its self-regulatory functions, possesses a number of disciplinary authorities over TPs. OSE may, after conducting a hearing, impose fines, order suspensions from or limitations to trading and to revoke a party's Trading Qualification, or issue a formal reprimand, depending on the causes.<sup>144</sup> The causes of such disciplinary actions include a breach of the agreements with OSE, an evasion of the inspection, a false report or notification to OSE and violation of laws and regulations.<sup>145</sup> Also, in cases where a TP falls under the causes prescribed in OSE's rules such as financial conditions (e.g. the amount of stated capital and net assets) do not meet the prescribed criteria, OSE may, after conducting a hearing, take regulatory dispositions against the TP such as order suspensions from or limitations to trading.<sup>146</sup> If a TP that has received a notification of disciplinary actions or regulatory dispositions considers the content unreasonable, it may file an objection by giving a reason within ten days of the date of the receipt.<sup>147</sup>

In addition to disciplinary actions and regulatory dispositions, in cases where OSE finds a TP's business or financial conditions inappropriate in light of OSE's market operations, it may recommend the TP to take improvement measures and require such TP to provide a report on the measures.<sup>148</sup>

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<sup>143</sup> Rules on Margin, Rule 36.

<sup>144</sup> Articles of Incorporation, Article 47. These disciplinary actions which can be found in Trading Participant Regulations, Rule 42, specifically include: (a) revocation of a TP's trading qualification, (b) suspension from or limitation of transactions in securities or entrustment of brokerage for clearing of securities on the OSE markets for no longer than 6 months, (c) a fine of not more than ¥500 million, and/or (d) reprimand.

<sup>145</sup> Trading Participant Regulations, Rule 42.

<sup>146</sup> Trading Participant Regulations, Rule 43 and 43-2.

<sup>147</sup> Trading Participant Regulations, Rule 46.

<sup>148</sup> Trading Participant Regulations, Rule 52.

OSE entrusts to JPX-R the operations concerning an investigation of TPs on the status of their observance with laws, etc., disciplinary actions and other measures. Based on the authorities of OSE described above (including the authority of investigation described in Exhibit G-2), JPX-R investigates the status of TP's observance with laws and regulations, administers the soundness of their financial conditions, and decides disciplinary actions and regulatory dispositions that OSE should take.

JPX-R investigates the actual status of TP's observance with laws and regulations and the status of their operations or financial conditions, and, based on the results of the investigation, takes necessary measures. JPX-R selects TPs to be subject to inspection based on the results of the recent inspections, etc., and inspects such TPs by on-site visit or review of documents. In cases where JPX-R finds that an act of a TP has violated or is likely to violate the laws or OSE's rules, etc. as a result of the inspection, it issues warning against the TP except for the case of disciplinary actions being taken. Also, in cases where JPX-R finds that the status of TP's operations or financial conditions is, or is likely to be, inappropriate in light of OSE's market operations, JPX-R requests an improvement in the internal control system of such TP except for the case of a recommendation being made. When JPX-R issues warning or makes a recommendation against a TP and if it deems it necessary, it requires the TP to provide a report on improvement measures, etc.

When a case arises that is subject to disciplinary actions or regulatory dispositions, JPX-R conducts a hearing to the TP, consults with the Disciplinary Committee for what disciplinary measures, etc. to be taken, and, after the discussion in the Disciplinary Committee, decides the disciplinary measures, etc. by decision of the president or resolution of the board of governors.

JPX-R determines what disciplinary action to be taken by comprehensively taking into consideration impact on the market, the degree of intent or negligence of individuals involved in the violation, the range of individuals involved in the violation, the past disciplinary action(s) taken on the TP, the improvement status after the past disciplinary action(s), etc. and the TP's internal control system. Based on the decision on disciplinary actions by JPX-R, OSE takes disciplinary actions against TPs. OSE does not have the authority to alter the disciplinary

action decided by JPX-R. When taking the disciplinary action, OSE notifies the TP of what disciplinary action to be taken and the reason therefor in writing, and notifies other TPs and publishes to that effect through the OSE's website, etc.

#### **Exhibit G-4**

##### **Description of the market surveillance program (and any related rules)**

In order to ensure fair and smooth trading on the OSE markets, OSE conducts market and trade surveillance and examination. The Market Administration Department of OSE engages in the real-time surveillance of futures and options trading, while the Market Surveillance & Compliance Department of JPX-R, to which OSE entrusts its self-regulatory operations, engages in post-trade examination.

##### *Trade Surveillance*

The Market Administration Department of OSE engages in the following operations: (a) monitoring transactions on a real-time basis; (b) inquiring circumstances to TPs or requiring them when unusual events have occurred; (c) notifying JPX-R of unusual events; (d) implementing regulatory measurements such as halt of trading, etc. according to trading or market conditions; (e) maintaining parameters necessary for monitoring daily transactions or markets; and (f) accepting and implementing amendment of trades when customers' orders have not been appropriately executed due to TP's error.

As of November 30, 2016, 46 members engage in the operations above for futures and options on futures trading. The futures and options on futures contracts are traded in a night session; therefore they work in relays by 6 teams.

The surveillance of futures and options on futures trading is conducted by using a specialized electronic system. The system is configured to have criteria for large-size orders and execution, extreme price fluctuation, and amendment and cancellation of orders, etc. If a trade falls under the criteria, the system picks up such trade on a real-time basis. The staff especially monitors the trades that have been picked up to prevent or quickly notice unusual events and implement regulatory measurements. The trades that are detected through the trade surveillance and are

likely to be contrary to the laws and regulations are examined by the Market Surveillance & Compliance of JPX-R on a post-trade basis.

#### *Trade Examination*

In conducting the trade examination, staff in the Market Surveillance & Compliance Department of JPX-R makes use of electronic data analysis systems to examine market movements associated with particular trades or to uncover suspicious trading patterns. The activities to be investigated include insider trading,<sup>149</sup> market manipulation and other conduct that violates the laws and regulations thereunder. For market manipulation, the subjects of the investigation are the issues considered to show unusual movements in price and/or trading volume or issues on which a report or information is made or provided by the public. The following chart illustrates in detail the steps that staff in the Market Surveillance & Compliance take in their program of trade examination. The Market Surveillance & Compliance reports the conduct considered to be unfair, inappropriate or inadequate to the Securities and Exchange Surveillance Commission (“SESC”).

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<sup>149</sup> Insider trading relates mainly to security options. The subject of most insider trading investigations relate mainly to the issues for which the issuance of material facts, which are required to be published under the FIEA, are made.

### Steps in the Conduct of Trade Examination

	Relating to Possible Market Manipulation	Relating to Possible Insider Trading (generally relevant to security options)
1. Opening an Investigation	<ul style="list-style-type: none"> <li>• Issues deemed to be unusual in the movement of the price and the trading volume</li> <li>• Issues on which a report or information is made or provided by the public.</li> </ul>	<ul style="list-style-type: none"> <li>• Issues deemed to be unusual in the movement of the price and the trading volume.</li> <li>• Issues on which a report or information is made or provided by the public.</li> <li>• Issues on which the material facts under the Law have been published.</li> </ul>
2. Investigation	<ul style="list-style-type: none"> <li>• Analyze the movement of the price and the trading volume</li> <li>• Investigate whether the trading activities are concentrated on a specific Trading Participant.</li> <li>• Grasp the customer's name (Inquire of the Trading Participants)</li> </ul>	
		<ul style="list-style-type: none"> <li>• Inquire of the listed company for the documents etc. describing the process leading to the publication of the material facts</li> </ul>
3. Opening an examination	<ul style="list-style-type: none"> <li>• In the case where the more detailed investigation is considered to be necessary</li> </ul>	
4. Examination		<ul style="list-style-type: none"> <li>• Investigate whether the corporate insiders has made trades</li> </ul>
	<ul style="list-style-type: none"> <li>• Inquire for and analyze the process of acceptance and execution of orders and the details of the customer (the attribute, the contents of the transactions and the relationship with the issuer company)</li> </ul>	
5. Disposition	<ul style="list-style-type: none"> <li>• Judge whether the unfair or inadequate conduct has taken place</li> <li>• Decide whether to recommend Disciplinary Action.</li> <li>• Report to the SESC</li> </ul>	

#### *Position Reporting and Position Limits*

OSE does not have position reporting rules for index futures contracts, but has for JGB Futures

contracts and options contracts on JGB Futures. For the nearest contract month of JGB Futures Contract (excluding Mini JGB Futures Contracts) and the options contracts underlying the nearest contract month of JGB Futures Contracts, in cases where the net position of long and short position exceeds the amount specified by OSE at a prescribed time, TPs must report information on the person who holds such position and the amount of such position.<sup>150</sup>

There are no position limits rules for each individual index futures, JGB futures and options on JGB futures contract; however, OSE may restrict the total purchase or sale open interests in futures/options contracts pursuant to the Rules on Regulatory Measures Concerning Market Transactions of Derivatives or their Brokerage. In addition, OSE may in its discretion, whenever it deems it necessary for market surveillance, inquire of a Participant's own positions as well as the size and attributes of the positions of the TP's customers.

Also, in the case where a TP is deemed to have an excessive position, OSE may demand the TP take necessary measures. If the measures are deemed not to be taken, OSE may take necessary regulatory dispositions against the TP, such as suspension of or limitation from trading.<sup>151</sup>

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<sup>150</sup> Business Regulation, Rule 53-2.

<sup>151</sup> Trading Participant Regulations, Rule 43-2.

## **EXHIBIT H – INFORMATION SHARING AGREEMENTS AMONG THE COMMISSION, THE FOREIGN BOARD OF TRADE, THE CLEARING ORGANIZATION, AND RELEVANT REGULATORY AUTHORITIES**

**(1) Description of the arrangements among the Commission, the foreign board of trade, the clearing organization, and the relevant foreign regulatory authorities that govern the sharing of information regarding the transactions that will be executed pursuant to the foreign board of trade’s registration with the Commission and the clearing and settlement of those transactions.**

The Japanese regulatory authorities have long recognized the need for securities regulators to share information on cross-border securities activities, and Japan values international information sharing agreements. In 2002, the Japanese FSA, the U.S. Securities and Exchange Commission (“SEC”) and the CFTC signed a Statement of Intent (“SOI”) Concerning Cooperation, Consultation and the Exchange of Information, which established a framework for information sharing and facilitated cooperation in investigations of potential unfair cross-border securities activities. The SOI was supported by Notes Verbale (Notes), which stated the views the governments share concerning sharing information.

In 2006, the Japanese FSA and the CFTC signed a document amending the SOI so as to cover financial derivatives transactions. The SOI now covers both securities derivatives and financial derivatives. Under the new framework, the FSA, SEC and CFTC will, upon request, exchange information regarding financial derivatives markets, including information on financial futures.

In March 2014, in view of the growing globalization of the world’s financial markets and the increase in cross-border operations and activities of regulated entities, the FSA and CFTC signed Memorandum of Cooperation (“MOC”) Related to the Supervision of Cross-border Covered Entities. The MOC complements the SOI above and IOSCO Multilateral Memorandum of Understanding concerning Consultation and Cooperation and the Exchange of Information referred to in the following (3). The FSA and CFTC expressed, through the MOC,

their willingness to cooperate with each other in the interest of fulfilling their respective regulatory mandates regarding derivatives markets, particularly in the areas of protecting investors and customers; fostering the integrity of and maintaining confidence in financial markets; and reducing systemic risk.

**(2) A statement as to whether and how the foreign board of trade has executed the International Information Sharing Memorandum of Understanding and Agreement.**

OSE is a signatory to the Exchange *International Information Sharing Memorandum of Understanding and Agreement* dated March 15, 1996.

**(3) A statement as to whether the regulatory authorities governing the activities of the foreign board of trade and clearing organization are signatories to the International Organization of Securities Commissions Multilateral Memorandum of Understanding. If not, describe any substitute information-sharing arrangements that are in place.**

In February 2008, Japan signed the International Organization of Securities Commission's ("IOSCO") Multilateral Memorandum of Understanding concerning Consultation and Cooperation and the Exchange of Information, a multilateral framework which facilitates information exchanges among securities regulators around the world. Japan underwent a thorough screening process by IOSCO with regard to its legislation concerning information exchange, and IOSCO determined that Japan has the legal ability to undertake the information exchange requirements.

**(4) A statement as to whether the regulatory authorities governing the activities of the foreign board of trade and clearing organization are signatories to the Declaration on Cooperation and Supervision of International Futures Exchanges and Clearing Organizations. If not, a statement as to whether and how they have committed to share the types of information contemplated by the International Information Sharing Memorandum of Understanding and Agreement with the Commission, whether pursuant to an existing memorandum of understanding or some other arrangement.**

The Japanese FSA is not a signatory to the Declaration on Cooperation and Supervision of International Futures Exchanges and Clearing Organizations (“Boca Declaration”) However, it is believed that, as seen in (1) and (3) above, the FSA and the Commission has established a framework for information sharing well enough to share the types of information contemplated by International Information Sharing Memorandum of Understanding and Agreement.

## **EXHIBIT I – ADDITIONAL INFORMATION AND DOCUMENTATION**

**Any additional information or documentation necessary to demonstrate that the requirements for registration applicable to the foreign board of trade set forth in Commission regulation 48.7 are satisfied.**

None, although we are happy to supplement this Application in response to any questions that the Commission may have.

**Articles of Incorporation of Osaka Exchange, Inc.**  
**(As of August 1, 2016)**

**Chapter 1**  
**General Provisions**

**Article 1. Trade Name**

The trade name of the company shall be "株式会社大阪取引所" in Japanese and "Osaka Exchange, Inc." in English (hereinafter referred to as the "Company").

**Article 2. Purpose**

1. The purpose of the Company shall be to conduct the following business:
  - (1) Providing market facilities for market transactions of derivatives, publicizing market prices and quotations, ensuring fairness of market transactions of derivatives, and other business regarding operation of the financial instruments exchange market
  - (2) Business incidental to the business mentioned in the preceding item.
2. The Company shall conduct its business, placing the highest value on making market transactions of derivatives executed in a fair and smooth manner, thereby contributing to the public interest and the protection of investors.

**Article 3. Location of Head Office**

The head office of the Company shall be located in the City of Osaka.

**Article 4. Method for Public Notice**

The Company shall make electronic public notice when it gives public notice; provided, however, that if the Company is unable to give public notice by electronic means due to an accident or any other unavoidable reason, it shall publicize the notice in the Nihon Keizai Shimbun.

**Chapter 2**  
**Shares in the Company**

**Article 5. Total Number of Authorized Shares**

The total number of authorized shares in the Company shall be 930,000.

**Article 6. Non-issuance of Share Certificates**

The Company shall not issue share certificates for its shares.

**Article 7. Restriction on Transfer of Shares**

In the event where shares of the Company are transferred or acquired, the transferring shareholder or the acquirer shall obtain the approval of the board of directors.

**Article 8. Transfer of Shares**

To transfer ownership due to acquisition of shares of the Company, a transfer request form predetermined by the Company shall be submitted jointly by the transferring shareholder and the acquirer; provided, however, that this shall not apply to cases of transfers made according to procedures specified by laws and regulations.

**Article 9. Pledged Shares and Shares Held in Trust**

To request an entry in the shareholder register to the effect that certain shares are held subject to a pledge agreement or to a trust deed, a request form predetermined by the Company with the name and seal of the parties shall be submitted. The same shall apply in the event where such entries are to be removed.

**Article 10. Notification of Shareholder's Address, etc.**

1. Shareholders, registered pledgees of shares, statutory representatives, and other legal representatives of the Company shall file their names, addresses, and seals with the Company.
2. The same shall apply in the event of changes to the information referred to in the preceding paragraph.

**Chapter 3**

**General Shareholders Meeting**

**Article 11. Convocation of General Shareholders Meeting**

The annual general shareholders meeting of the Company shall be convened within three (3) months after the end of each fiscal year. An extraordinary general shareholders meeting shall be called whenever necessary.

**Article 12. Record Date**

The record date for the voting rights of the annual general shareholders meeting of the

Company shall be March 31 every year.

**Article 13. Convener and Chairperson of General Shareholders Meeting**

1. A general shareholders meeting shall, in accordance with the resolution by the board of directors, be convened and presided over by a director serving as president, except as otherwise provided by laws and regulations.
2. In the event that the director serving as president is unable to fulfill his/her duties due to an accident or any other similar reason, a different director shall convene and preside over the general shareholders meeting in an order predetermined by the board of directors.

**Article 14. Internet Disclosure and Deemed Provision of Reference Documents, etc. of General Shareholders Meetings**

When the Company gives notification of the convocation of a general shareholders meeting, if it discloses information pertaining to matters that should be recorded or described in reference documents for a general shareholders meeting, business reports, accounting documents, and consolidated accounting documents in a manner utilizing the Internet in accordance with the provisions prescribed by ordinances of the Ministry of Justice, the Company may be deemed to have provided this information to shareholders.

**Article 15. Method for Resolutions of the General Shareholders Meeting**

1. Resolutions of the general shareholders meeting shall be adopted by a majority vote of the voting rights of the shareholders who are present and can exercise their voting rights, except as otherwise provided by laws and regulations or these Articles of Incorporation.
2. Resolutions of the general shareholders meeting specified in Article 309, Paragraph 2 of the Companies Act shall be adopted by at least two-thirds (2/3) of the voting rights of the shareholders who are present and own at least one-third (1/3) of the total voting rights of the shareholders who can exercise their voting rights.

**Article 16. Exercise of Voting Right by Proxy**

1. Each shareholder may exercise his/her voting right by having another shareholder who is entitled to vote at the general shareholders meeting act as a proxy on his/her behalf.
2. In the event that a shareholder exercises his/her voting right pursuant to the provisions of the preceding paragraph, the shareholder or his/her proxy must submit to the Company a document proving his/her power of representation for each general shareholders meeting.

## **Chapter 4**

### **Directors and Board of Directors**

#### **Article 17. Establishment of Board of Directors**

The Company shall establish a board of directors.

#### **Article 18. Number of Directors**

The number of directors of the Company shall not exceed thirteen (13).

#### **Article 19. Election of Directors**

1. Directors shall be elected by resolution adopted by the general shareholders meeting.
2. Resolutions for election of directors shall be adopted by a majority vote of the voting rights of the shareholders who are present and own at least one-third (1/3) of the voting rights of the shareholders who can exercise their voting rights.
3. No cumulative voting shall be permitted for resolutions on electing directors.

#### **Article 20. Term of Office of Directors**

1. A director's term of office shall expire at the close of the annual general shareholders meeting for, out of the fiscal years ending within one (1) year after their election, the last fiscal year.
2. The term of office of directors who have been elected to fill a seat resulting from an increase in the authorized number of directors or to fill a vacancy on the board of directors shall be until the end of the term of office of incumbent directors.

#### **Article 21. Representative Directors, etc.**

1. The board of directors shall, by its resolutions, elect representative directors.
2. The board of directors may, by its resolutions, elect one director serving as chairman, one director serving as president, a few directors serving as deputy presidents, senior managing directors, and managing directors.
3. A director who is engaged regularly in the Company's business shall not engage in any business activity directly related to the financial instruments business during his/her term of office.

#### **Article 22. Convener and Chairperson of Board of Directors Meetings**

A meeting of the Board of Directors shall be convened by the director appointed by the

board of directors, who presides over as chairperson, except as otherwise provided by laws and regulations.

**Article 23. Notice of Board of Directors Meeting**

1. When convening a meeting of the board of directors, notice shall be given to each director and each auditor at least three (3) days before the day of the meeting. However, this period may be reduced in the case of an emergency.
2. With the consent of all directors and auditors, a meeting of the board of directors may be convened without going through the steps required under the convening procedures.

**Article 24. Method for Resolution by Board of Directors**

Resolution of the board of directors shall be adopted if a majority of the directors who can vote at the board of directors meeting are present, and a majority of these directors approve.

**Article 25. Omission of Resolution by Board of Directors**

Where all the directors who can participate in a vote agree to a resolution matter in writing or electromagnetic recording, a resolution of the board of directors approving such matter shall be deemed to have been adopted; provided, however, that this shall not apply when an auditor objects to such resolution.

**Article 26. Rules on Board of Directors**

Matters concerning the board of directors shall be subject to the rules on the board of directors as adopted by the board of directors in addition to laws and regulations and/or these Articles of Incorporation.

**Article 27. Exemption from Liabilities of Directors, etc.**

1. Pursuant to the provisions of Article 426, Paragraph 1 of the Companies Act, the Company may, by resolution of the board of directors, exempt a director (including a person who was formerly a director) from his/her liability for damages arising from failure to carry out his/her duties to the extent legally allowed.
2. Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company may enter into an agreement with a director (excluding an executive director, etc.), which limits his/her liability for damages arising from failure to carry out his/her duties; provided, however, that the maximum amount of liability for damages under such agreement shall be as prescribed by laws and regulations.

## **Chapter 5**

### **Auditors and Board of Auditors**

#### **Article 28. Establishment of Auditor Position and Board of Auditors**

The Company shall appoint auditors and set up a board of auditors.

#### **Article 29. Number of Auditors**

The number of auditors of the Company shall not exceed three (3).

#### **Article 30. Election of Auditors**

1. Auditors shall be elected by resolution adopted by the general shareholders meeting.
2. Resolutions on the election of auditors shall be adopted by a majority vote of the voting rights of the shareholders who are present and own at least one-third (1/3) of the voting rights of the shareholders who can exercise their voting rights.

#### **Article 31. Term of Office of Auditors**

1. An auditor's term of office shall expire at the close of the annual general shareholders meeting for, out of the fiscal years ending within four (4) years after their election, the last fiscal year.
2. The term of office of an auditor who has been elected to fill a vacancy of a preceding auditor who has retired before the expiration of his/her term of office shall expire at the time of expiration of the preceding auditor's term of office.

#### **Article 32. Full-Time Auditors**

1. The board of auditors shall, by its resolution, elect one or more full-time auditors.
2. A full-time auditor shall not engage in any business activity directly related to the financial instruments business during his/her term of office.

#### **Article 33. Convener of Board of Auditors Meeting**

A meeting of the board of auditors shall be convened by each auditor.

#### **Article 34. Notice of Meeting of Board of Auditors**

1. When convening a meeting of the board of auditors, notice shall be given to each auditor at least three (3) days before the day of the meeting. However, this period may be reduced in the case of an emergency.
2. With the consent of all auditors, a meeting of the board of auditors may be convened

without going through the steps required under the convening procedures.

**Article 35. Method of Resolutions of Board of Auditors**

A resolution of the board of auditors shall be adopted by a majority vote of the auditors, except as otherwise provided by laws and regulations.

**Article 36. Rules on Board of Auditors**

Matters concerning the board of auditors shall be subject to the rules on the board of auditors as adopted by the board of auditors in addition to laws and regulations and/or these Articles of Incorporation.

**Article 37. Exemption from Liabilities of Auditors, etc.**

1. Pursuant to the provisions of Article 426, Paragraph 1 of the Companies Act, the Company may, by resolution of the board of directors, exempt an auditor (including a person who was formerly an auditor) from his/her liability for damages arising from a failure to carry out his/her duties to the extent legally allowed.
2. Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company may enter into an agreement with an individual auditor which limits his/her liability for damages arising from failure to carry out his/her duties; provided, however, that the maximum amount of liability for damages under such agreement shall be as prescribed by laws and regulations.

**Chapter 6**  
**Accounting Auditor**

**Article 38. Establishment of Accounting Auditor Positions**

The Company shall establish accounting auditor positions.

**Article 39. Election of Accounting Auditors**

Accounting auditors shall be elected by resolution adopted by the general shareholders meeting.

**Article 40. Term of Office of Accounting Auditors**

1. An accounting auditor's term of office shall expire at the close of the annual general shareholders meeting for, out of the fiscal years ending within a year after their election,

the last fiscal year.

2. Where no special resolution has been adopted in the annual general shareholders meeting referred to in the preceding paragraph, an accounting auditor shall be deemed to have been re-elected in such annual general shareholders meeting.

## **Chapter 7**

### **Advisory Committees**

#### **Article 41. Advisory Committees**

1. Advisory committees shall be established within the Company.
2. Advisory committees shall be able to respond to requests for advice and/or express opinion to the board of directors with respect to important matters concerning the market operations of the financial instruments exchange market established by the Company (hereinafter referred to as "the market of the Company").
3. Composition and procedures of meetings of advisory committees, and other matters necessary for running advisory committees shall be subject to the rules on advisory committees adopted by the board of directors.

## **Chapter 8**

### **Financial Instruments Exchange Market**

#### **Article 42. Financial Instruments Exchange Market**

Market transactions of derivatives shall be carried out in the market of the Company..

#### **Article 43. Creating Standardized Instruments for Market Transactions of Derivatives**

The Company may create standardized instruments by standardizing coupon rates, maturities, and other terms for market transactions of derivatives.

#### **Article 44. Business Regulations, Brokerage Agreement Standards, etc.**

1. Matters necessary for market transactions of derivatives in the market of the Company shall be provided by the Business Regulations.
2. Any agreement pertaining to the acceptance of brokerage by a trading participant for market transactions of derivatives (excluding brokerage for clearing of securities, etc.) in the market of the Company shall be provided by the Brokerage Agreement Standards.

3. In addition to those referred to in the preceding two paragraphs, the Company may establish rules and regulations when it deems necessary for operating the market of the Company.

## Chapter 9

### Investigation of and Disciplinary Action against Trading Participant

#### **Article 45. Compliance by Trading Participant with Laws, Regulations, Rules, etc.**

A trading participant must comply with the Financial Instruments and Exchange Act and the related laws and regulations (hereinafter referred to as the "Laws and Regulations" in this chapter), dispositions taken by administrative authorities under the Laws and Regulations, the Company's Articles of Incorporation, Business Regulations, Brokerage Agreement Standards and other rules and regulations (hereinafter referred to as "the Rules and Regulations of the Company" in this chapter), and the just and equitable principles of trade.

#### **Article 46. Investigation of Trading Participant**

The Company may, when it examines a trading participant's state of compliance with the Laws and Regulations, dispositions taken by administrative authorities under the Laws and Regulations, the Rules and Regulations of the Company or the just and equitable principles of trade, or in any other cases specified in the Business Regulations, conduct necessary investigations, as prescribed by the Company.

#### **Article 47. Disciplinary Action against Trading Participant**

In cases where a trading participant has violated the Laws and Regulations, has failed to comply with dispositions taken by administrative authorities under the Laws and Regulations, has violated the Rules and Regulations of the Company, has failed to observe the just and equitable principles of trade, or has fallen under any other cause(s) for a disciplinary action specified in the Business Regulations, the Company may take disciplinary actions against the trading participant such as imposition of fines, suspension from or restriction on market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. in the market of the Company, revocation of the trading qualification, or imposition of any other dispositions, as prescribed by the Company.

## Chapter 10

## Accounting

### Article 48. Fiscal Year

The fiscal year of the Company shall be from April 1st to March 31st of the following year.

### Article 49. Year-end Dividends

The Company shall, by resolution of the general shareholders meeting, pay surplus dividends in cash (hereinafter referred to as "year-end dividends") to shareholders or registered stock pledgees who have been entered into or recorded on the final shareholder register as of March 31st of each year.

### Article 50. Interim Dividends

The Company may, by resolution of the board of directors, pay surplus dividends provided by Article 454, Paragraph 5 of the Companies Act (hereinafter referred to as "interim dividends") to shareholders or registered stock pledgees who have been entered into or recorded on the shareholder register as of September 30th of each year.

### Article 51. Statute of Limitation on Claiming Dividends

1. In the event that year-end dividends or interim dividends have yet to be received for a full three (3) years after the day on which dividend payment has commenced, the Company shall be released from the obligation to pay them.
2. No interest shall accrue on year-end dividends and interim dividends.

## Supplementary Provision

These Articles of Incorporation shall be implemented on July 16, 2013

### Supplementary Provisions

Article 1. These amendments shall be implemented on the date set forth by the Company.

Article 2. The provisions of Article 37 and Article 38, Paragraph 2 before amendment shall remain in force with regard to an auditor elected to fill a vacancy before these amendments were implemented.

### Supplementary Provisions

Article 1. These amendments shall be implemented on March 24, 2014.

Article 2. Notwithstanding the preceding paragraph, where the Company deems that it is not

## Reference Translation

appropriate to implement these amendments on March 24, 2014 due to a malfunction in the trading system or other unavoidable reasons, these amendments shall be implemented on the date set forth by the Company after March 24, 2014.

### **Supplementary Provision**

These amendments shall be implemented on August 1, 2016.

(For Remote Trading Participants)

## Trading Participant Agreement

To: \_\_\_\_\_ Date: Month \_\_\_\_ Day \_\_\_\_ Year \_\_\_\_  
President & CEO  
Osaka Exchange, Inc.

Address:  
Trade name or name:  
Name of representative: (Seal)  
Signature:

\_\_\_\_\_ (hereinafter referred to as the "Company") hereby agrees to the following matters, as a (type of trading participant) of Osaka Exchange, Inc. (hereinafter referred to as "OSE").

1. The Company shall comply with the Articles of Incorporation, Business Regulations, Brokerage Agreement Standards, and other regulations as currently constituted and as may be established or amended in the future by OSE (hereinafter referred to as the "Regulations"), and abide by the Regulations and just and equitable principles of trade.
2. The Company shall comply with the revocation of trading qualification(s), suspension from or restriction on market transactions of derivatives (excluding those based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc., imposition of fines and any other disciplinary actions, regulatory dispositions, or measures OSE may take under the Regulations.
3. The Company shall, in the event that it waives its trading qualification(s), accept all responsibility for such waiver, and shall not inconvenience OSE, other trading participants, or its customers.
4. In the event that OSE notifies the Company of amendments to the content of this agreement and the Company does not raise an objection by the predefined deadline, the Company shall be deemed to agree to such amendments.
5. Excluding those specified separately by OSE, notifications made between the Company and OSE (including documents delivered/received) shall be prepared in Japanese, and monetary amounts in such notifications shall be indicated in Japanese yen or the local currency.
6. This agreement and the Regulations shall be governed and construed by the laws of Japan.
7. Any litigation between the Company and OSE shall be subject solely to the jurisdiction of the Osaka District Court.

## Contract Specifications

## Index Futures Contracts (1)

	Nikkei 225 Futures	Nikkei 225 mini	TOPIX Futures	Mini TOPIX Futures
<b>Underlying</b>	Nikkei Stock Average(Nikkei 225)	Nikkei Stock Average(Nikkei 225)	Tokyo Stock Price Index (TOPIX)	Tokyo Stock Price Index (TOPIX)
<b>Contract Months</b>	13 quarterly months Jun. Dec.: 10 nearest months Mar. Jun.: 3 nearest months	16 months Jun. Dec.: 10 nearest months Mar. Jun.: 3 nearest months Other months: 3 nearest months	5 nearest quarterly months	3 nearest quarterly months
<b>Last Trading Day</b>	Business day preceding the 2 <sup>nd</sup> Friday (If the 2 <sup>nd</sup> Friday falls on a non-business day, it shall be the preceding business day) of each contract month	Business day preceding the 2 <sup>nd</sup> Friday (If the 2 <sup>nd</sup> Friday falls on a non-business day, it shall be the preceding business day) of each contract month	Business day preceding the 2 <sup>nd</sup> Friday (If the 2 <sup>nd</sup> Friday falls on a non-business day, it shall be the preceding business day) of each contract month	Business day preceding the 2 <sup>nd</sup> Friday (If the 2 <sup>nd</sup> Friday falls on a non-business day, it shall be the preceding business day) of each contract month
<b>Trading Hours (JST)</b>	08:45 – 15:15 16:30 – 05:30 (next day)			
<b>Contract Size</b>	JPY 1,000 x Underlying index	JPY 100 x Underlying index	JPY 10,000 x Underlying index	JPY 1,000 x Underlying index
<b>Tick Size</b>	JPY 10	JPY 5	0.5 pts	0.25 pts
<b>Daily Price Limits</b>	Base price +/- the following three (3) levels of the price limit range 1 <sup>st</sup> level 8%, 2 <sup>nd</sup> level 12%, 3 <sup>rd</sup> level 16% * The base price is a settlement price on the previous business day in principle. The price limit range shall be calculated using the average of the base prices for the latest 20 days and revised on a quarterly basis.	Base price +/- the following three (3) levels of the price limit range 1 <sup>st</sup> level 8%, 2 <sup>nd</sup> level 12%, 3 <sup>rd</sup> level 16% * The base price is a settlement price on the previous business day in principle. The price limit range shall be calculated using the average of the base prices for the latest 20 days and revised on a quarterly basis.	Base price +/- the following three (3) levels of the price limit range 1 <sup>st</sup> level 8%, 2 <sup>nd</sup> level 12%, 3 <sup>rd</sup> level 16% * The base price is a settlement price on the previous business day in principle. The price limit range shall be calculated using the average of the base prices for the latest 20 days and revised on a quarterly basis.	Base price +/- the following three (3) levels of the price limit range 1 <sup>st</sup> level 8%, 2 <sup>nd</sup> level 12%, 3 <sup>rd</sup> level 16% * The base price is a settlement price on the previous business day in principle. The price limit range shall be calculated using the average of the base prices for the latest 20 days and revised on a quarterly basis.

	<b>Nikkei 225 Futures</b>	<b>Nikkei 225 mini</b>	<b>TOPIX Futures</b>	<b>Mini TOPIX Futures</b>
<b>Circuit Breaker</b>	In cases that a bid (offer) is placed at the upper (lower) price limit(or executed) for the central contract month and no subsequent trades are executed outside 10% of the daily price limit range from said upper (lower) price limit in the next minute, trading for all contract months shall be suspended for 10 minutes. When the circuit breaker is triggered, the upper or lower price limit will be expanded to the next level.	In cases that circuit breaker is triggered at Nikkei 225 Futures, trading in all contract months of Nikkei 225 mini shall be suspended. When the circuit breaker is triggered, the upper or lower price limit will be expanded to the next level.	In cases that a bid (offer) is placed at the upper (lower) price limit(or executed) for the central contract month and no subsequent trades are executed outside 10% of the daily price limit range from said upper (lower) price limit in the next minute, trading for all contract months shall be suspended for 10 minutes. When the circuit breaker is triggered, the upper or lower price limit will be expanded to the next level.	In cases that circuit breaker is triggered at TOPIX Futures, all contract months of Mini TOPIX Futures shall be suspended. When the circuit breaker is triggered, the upper or lower price limit will be expanded to the next level.
<b>Settlement</b>	Cash settlement	Cash settlement	Cash settlement	Cash settlement
<b>Final Settlement Price</b>	Special index value calculated based on the opening price of each component stock of the underlying index on the business day following the last trading day	Special index value calculated based on the opening price of each component stock of the underlying index on the business day following the last trading day	Special index value calculated based on the opening price of each component stock of the underlying index on the business day following the last trading day	Special index value calculated based on the opening price of each component stock of the underlying index on the business day following the last trading day
<b>Strategy Trading</b>	Available (Calendar spread)	Available (Calendar spread)	Available (Calendar spread)	Available (Calendar spread)
<b>Off-auction Trading (J-NET Trading)</b>	Available (Tick size: JPY 0.0001)	Available (Tick size: JPY 0.0001)	Available (Tick size: 0.0001 pts.)	Available (Tick size: 0.0001 pts.)

## Index Futures Contracts (2)

	JPX-Nikkei Index 400 Futures	TSE Mothers Index Futures	Russell/Nomura Prime Index Futures	TOPIX Core 30 Futures
<b>Underlying</b>	JPX-Nikkei Index 400	TSE Mothers Index	Russell/Nomura Prime Index	TOPIX Core 30
<b>Contract Months</b>	5 nearest quarterly months	5 nearest quarterly months	5 nearest quarterly months	3 nearest quarterly months
<b>Last Trading Day</b>	Business day preceding the 2 <sup>nd</sup> Friday (If the 2 <sup>nd</sup> Friday falls on a non-business day, it shall be the preceding business day) of each contract month	Business day preceding the 2 <sup>nd</sup> Friday (If the 2 <sup>nd</sup> Friday falls on a non-business day, it shall be the preceding business day) of each contract month	Business day preceding the 2 <sup>nd</sup> Friday (If the 2 <sup>nd</sup> Friday falls on a non-business day, it shall be the preceding business day) of each contract month	Business day preceding the 2 <sup>nd</sup> Friday (If the 2 <sup>nd</sup> Friday falls on a non-business day, it shall be the preceding business day) of each contract month
<b>Trading Hours (JST)</b>	08:45 – 15:15 16:30 – 05:30 (next day)			
<b>Contract Size</b>	JPY 100 x Underlying index	JPY 1,000 x Underlying index	JPY 10,000 x Underlying index	JPY 1,000 x Underlying index
<b>Tick Size</b>	5 pts.	0.5 pts. <sup>1</sup>	0.5 pts	0.5 pts
<b>Daily Price Limits</b>	Base price +/- the following three (3) levels of the price limit range 1 <sup>st</sup> level 8%, 2 <sup>nd</sup> level 12%, 3 <sup>rd</sup> level 16% * The base price is a settlement price on the previous business day in principle. The price limit range shall be calculated using the average of the base prices for the latest 20 days and revised on a quarterly basis.	Base price +/- the following three (3) levels of the price limit range 1 <sup>st</sup> level 8%, 2 <sup>nd</sup> level 12%, 3 <sup>rd</sup> level 16% * The base price is a settlement price on the previous business day in principle. The price limit range shall be calculated using the average of the base prices for the latest 20 days and revised on a quarterly basis.	Base price +/- the following three (3) levels of the price limit range 1 <sup>st</sup> level 8%, 2 <sup>nd</sup> level 12%, 3 <sup>rd</sup> level 16% * The base price is a settlement price on the previous business day in principle. The price limit range shall be calculated using the average of the base prices for the latest 20 days and revised on a quarterly basis.	Base price +/- the following three (3) levels of the price limit range 1 <sup>st</sup> level 8%, 2 <sup>nd</sup> level 12%, 3 <sup>rd</sup> level 16% * The base price is a settlement price on the previous business day in principle. The price limit range shall be calculated using the average of the base prices for the latest 20 days and revised on a quarterly basis.
<b>Circuit Breaker</b>	In cases that a bid (offer) is placed at the upper (lower) price limit(or executed) for the central contract month and no	In cases that a bid (offer) is placed at the upper (lower) price limit(or executed) for the central contract month and no	In cases that a bid (offer) is placed at the upper (lower) price limit(or executed) for the central contract month and no	In cases that a bid (offer) is placed at the upper (lower) price limit(or executed) for the central contract month and no

<sup>1</sup> Osaka Exchange, Inc. plans to change tick size for TSE Mothers Index futures from 0.5 pts. to 1.0 pt., with effect from April 3, 2017.

	<b>JPX-Nikkei Index 400 Futures</b>	<b>TSE Mothers Index Futures</b>	<b>Russell/Nomura Prime Index Futures</b>	<b>TOPIX Core 30 Futures</b>
	subsequent trades are executed outside 10% of the daily price limit range from said upper (lower) price limit in the next minute, trading for all contract months shall be suspended for 10 minutes. When the circuit breaker is triggered, the upper or lower price limit will be expanded to the next level.	subsequent trades are executed outside 10% of the daily price limit range from said upper (lower) price limit in the next minute, trading for all contract months shall be suspended for 10 minutes. When the circuit breaker is triggered, the upper or lower price limit will be expanded to the next level.	subsequent trades are executed outside 10% of the daily price limit range from said upper (lower) price limit in the next minute, trading for all contract months shall be suspended for 10 minutes. When the circuit breaker is triggered, the upper or lower price limit will be expanded to the next level.	subsequent trades are executed outside 10% of the daily price limit range from said upper (lower) price limit in the next minute, trading for all contract months shall be suspended for 10 minutes. When the circuit breaker is triggered, the upper or lower price limit will be expanded to the next level.
<b>Settlement</b>	Cash settlement	Cash settlement	Cash settlement	Cash settlement
<b>Final Settlement Price</b>	Special index value calculated based on the opening price of each component stock of the underlying index on the business day following the last trading day	Special index value calculated based on the opening price of each component stock of the underlying index on the business day following the last trading day	Special index value calculated based on the opening price of each component stock of the underlying index on the business day following the last trading day	Special index value calculated based on the opening price of each component stock of the underlying index on the business day following the last trading day
<b>Strategy Trading</b>	Available (Calendar spread)	Available (Calendar spread)	Available (Calendar spread)	Available (Calendar spread)
<b>Off-auction Trading (J-NET Trading)</b>	Available (Tick size: 0.0001 pts.)			

## Index Futures Contracts (3)

	TSE REIT Index Futures	Nikkei 225 VI Futures
<b>Underlying</b>	TSE REIT Index <sup>2</sup>	Nikkei Stock Average Volatility Index (Nikkei 225 VI)
<b>Contract Months</b>	3 nearest quarterly months	8 nearest serial months
<b>Last Trading Day</b>	Business day preceding the 2 <sup>nd</sup> Friday (If the 2 <sup>nd</sup> Friday falls on a non-business day, it shall be the preceding business day) of each contract month	Business day preceding the day (if it falls on a non-business day, it shall be the preceding business day) that is 30 days prior to the 2 <sup>nd</sup> Friday (if the 2 <sup>nd</sup> Friday falls on a non-business day, it shall be the preceding business day) of the calendar month following each contract month
<b>Trading Hours (JST)</b>	08:45 – 15:15 16:30 – 05:30 (next day)	09:00 – 15:15 16:30 – 19:00
<b>Contract Size</b>	JPY 1,000 x Underlying index	JPY 10,000 x Underlying index
<b>Tick Size</b>	0.5 pts.	0.05 pts.
<b>Daily Price Limits</b>	Base price +/- the following three (3) levels of the price limit range 1 <sup>st</sup> level 8%, 2 <sup>nd</sup> level 12%, 3 <sup>rd</sup> level 16% * The base price is a settlement price on the previous business day in principle. The price limit range shall be calculated	Base price +/- 10 pts.  * The base price is a settlement price on the previous business day in principle.

<sup>2</sup> Tokyo Stock Exchange, Inc. ("TSE") is going to change the calculation methodology for TSE REIT Index from full-market capitalization weighting to free-float adjusted market capitalization weighting. Monthly adjustments for phases one through four will take place after the close of trading on the business day preceding the last business day of Jan.- Apr. 2017, and the introduction of free-float adjusted weightings will be completed after the close of trading on the business day preceding the last business day of May 2017.

	<b>TSE REIT Index Futures</b>	<b>Nikkei 225 VI Futures</b>
	using the average of the base prices for the latest 20 days and revised on a quarterly basis.	
<b>Circuit Breaker</b>	In cases that a bid (offer) is placed at the upper (lower) price limit(or executed) for the central contract month and no subsequent trades are executed outside 10% of the daily price limit range from said upper (lower) price limit in the next minute, trading for all contract months shall be suspended for 10 minutes. When the circuit breaker is triggered, the upper or lower price limit will be expanded to the next level.	In cases that a bid (offer) is placed at the upper (lower) price limit(or executed) for the central contract month and no subsequent trades are executed outside 10% of the daily price limit range from said upper (lower) price limit in the next minute, trading for all contract months shall be suspended for 10 minutes. When the circuit breaker is triggered, the upper or lower price limit will be expanded by 5 pts.
<b>Settlement</b>	Cash settlement	Cash settlement
<b>Final Settlement Price</b>	Special index value calculated based on the opening price of each component stock of the underlying index on the business day following the last trading day	Special index value calculated based on the opening price of Nikkei 225 Futures and Nikkei 225 Options on the business day following the last trading day
<b>Strategy Trading</b>	Available (Calendar spread)	Available (Calendar spread)
<b>Off-auction Trading (J-NET Trading)</b>	Available (Tick size: 0.0001 pts.)	Available (Tick size: 0.0001 pts.)

**Government Bond Futures Contracts**

	<b>5-year JGB Futures</b>	<b>10-year JGB Futures</b>	<b>20-year JGB Futures</b>	<b>Mini 10-year JGB Futures</b>
<b>Underlying</b>	Standardized 3%, 5-year JGB	Standardized 6%, 10-year JGB	Standardized 3%, 20-year JGB	Price of standardized 6%, 10-year JGB
<b>Contract Months</b>	3 nearest quarterly months	3 nearest quarterly months	3 nearest quarterly months	3 nearest quarterly months
<b>Last Trading Day</b>	5 <sup>th</sup> business day prior to each delivery date (20 <sup>th</sup> day of each contract month; the date shall be moved down if it falls on a non-business day)	5 <sup>th</sup> business day prior to each delivery date (20 <sup>th</sup> day of each contract month; the date shall be moved down if it falls on a non-business day)	5 <sup>th</sup> business day prior to each delivery date (20 <sup>th</sup> day of each contract month; the date shall be moved down if it falls on a non-business day)	6 <sup>th</sup> business day prior to each delivery date of 10-year JGB Futures for the same contract month
<b>Trading Hours (JST)</b>	08:45 – 11:02 12:30 – 15:02 15:30 – 05:30 (next day)	08:45 – 11:02 12:30 – 15:02 15:30 – 05:30 (next day)	08:45 – 11:02 12:30 – 15:02 15:30 – 05:30 (next day)	08:45 – 11:02 12:30 – 15:02 15:30 – 05:30 (next day)
<b>Contract Size</b>	JPY 100 million per face value	JPY 100 million per face value	JPY 100 million per face value	JPY 100 thousands x Price of 10-year JGB Futures
<b>Tick Size</b>	JPY 0.01	JPY 0.01	JPY 0.01	JPY 0.005
<b>Daily Price Limits</b>	Base price +/- the following two (2) levels 1 <sup>st</sup> level: JPY 2, 2 <sup>nd</sup> level: JPY 3 * The base price is a settlement price on the previous business day in principle.	Base price +/- the following two (2) levels 1 <sup>st</sup> level: JPY 2, 2 <sup>nd</sup> level: JPY 3 * The base price is a settlement price on the previous business day in principle.	Base price +/- the following two (2) levels 1 <sup>st</sup> level: JPY 4, 2 <sup>nd</sup> level: JPY 6 * The base price is a settlement price on the previous business day in principle.	Base price +/- the following two (2) levels 1 <sup>st</sup> level: JPY 2, 2 <sup>nd</sup> level: JPY 3 * The base price is a settlement price on the previous business day in principle.
<b>Circuit Breaker</b>	In cases that a bid (offer) is placed at the upper (lower) price limit(or executed) for the central contract month and no subsequent trades are executed outside 10 ticks from said upper (lower) price limit in the next minute, trading for all contract months shall be suspended for 10 minutes. When the circuit breaker is	In cases that a bid (offer) is placed at the upper (lower) price limit(or executed) for the central contract month and no subsequent trades are executed outside 10 ticks from said upper (lower) price limit in the next minute, trading for all contract months shall be suspended for 10 minutes. When the circuit breaker is	In cases that a bid (offer) is placed at the upper (lower) price limit(or executed) for the central contract month and no subsequent trades are executed outside 30 ticks from said upper (lower) price limit in the next minute, trading for all contract months shall be suspended for 10 minutes. When the circuit breaker is	In cases that circuit breaker is triggered at 10-year JGB Futures, all contract months of Mini 10-year JGB Futures shall be suspended. When the circuit breaker is triggered, the upper or lower price limit will be expanded to the next level.

	<b>5-year JGB Futures</b>	<b>10-year JGB Futures</b>	<b>20-year JGB Futures</b>	<b>Mini 10-year JGB Futures</b>
	triggered, the upper or lower price limit will be expanded to the next level.	triggered, the upper or lower price limit will be expanded to the next level.	triggered, the upper or lower price limit will be expanded to the next level.	
<b>Settlement</b>	Cash settlement for resale or repurchase Physical delivery for final settlement	Cash settlement for resale or repurchase Physical delivery for final settlement	Cash settlement for resale or repurchase Physical delivery for final settlement	Cash settlement
<b>Deliverable Grade</b>	Interest-bearing 5-year JGBs with 4 years or more but less than 5.25 years. * The deliverable grade is limited to issues whose month of issue is at least 3 months before the month of delivery.	Interest-bearing 10-year JGBs with 7 years or more but less than 11 years. * The deliverable grade is limited to issues whose month of issue is at least 3 months before the month of delivery.	Interest-bearing 20-year JGBs with 19 years 3 months or more but less than 21 years. * The deliverable grade is limited to issues whose month of issue is at least 4 months before the month of delivery.	-
<b>Price for Settlement by Physical Delivery / Final Settlement Price</b>	Settlement price on the last trading day	Settlement price on the last trading day	Settlement price on the last trading day	Opening price of 10-year JGB Futures for the same contract month on the business day following the last day for Mini 10-year JGB Futures.
<b>Strategy Trading</b>	Available (Calendar spread)	Available (Calendar spread)	Available (Calendar spread)	Available (Calendar spread)
<b>Off-auction Trading (J-NET Trading)</b>	Available (Tick size: JPY 0.0001)	Available (Tick size: JPY 0.0001)	Available (Tick size: JPY 0.0001)	Available (Tick size: JPY 0.0001)

**Options on Government Bond Futures Contracts**

	<b>Options on 10-year JGB Futures</b>
<b>Underlying</b>	10-year JGB Futures Mar. futures contracts for Jan., Feb. and Mar. options contracts Jun. futures contracts for Apr., May and Jun. options contracts Sep. futures contracts for Jul., Aug. and Sep. options contracts Dec. futures contracts for Oct., Nov. and Dec. options contracts.
<b>Contract Months</b>	2 nearest quarterly months plus 1 or 2 nearest serial contract months
<b>Last Trading Day</b>	The last business day of the month prior to the option contract month
<b>Trading Hours (JST)</b>	08:45 – 11:02 12:30 – 15:02 15:30 – 05:30 (next day)
<b>Contract Size</b>	1 option contract represents the right to buy or sell 10-year JGB futures of 100 million yen in face value.
<b>Tick Size</b>	JPY 0.01 per JPY 100 in face value
<b>Strike Price</b>	21 strike prices with JPY 0.50 intervals. Additional strike prices shall be set in conjunction with fluctuation in the underlying price. Application-based strike prices (on-demand strike prices) may be set within certain price range.
<b>Daily Price Limits</b>	Base price +/- the following two (2) levels 1 <sup>st</sup> level: JPY 2.10, 2 <sup>nd</sup> level: JPY 3.00 * The base price is a settlement price on the previous business day in principle.
<b>Circuit Breaker</b>	In cases that circuit breaker is triggered at 10-year JGB Futures, all contract months of Options on 10-year JGB Futures shall be suspended. When the circuit breaker is triggered, the upper or lower price limit will be

	<b>Options on 10-year JGB Futures</b>
	expanded to the next level.
<b>Settlement</b>	Cash settlement for resale or repurchase Exercise of options result in transactions in 10-year JGB Futures
<b>Exercise Type</b>	American type * The buyer of option may exercise the option at any time from the first trading day to the last trading day. All in-the-money options at the end of expiration date will be automatically exercised, unless otherwise instructed.
<b>Strategy Trading</b>	Available (Tailor Made Combination: trading participants make the combination of strategy trading)
<b>Off-auction Trading (J-NET Trading)</b>	Available (Tick size: JPY 0.0001)

# Financial Instruments and Exchange Act

(Act No. 25 of April 13, 1948)

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Supplementary Provisions

## **Chapter I General Provisions**

### (Purpose)

Article 1 The purpose of this Act is to ensure fairness in, inter alia, the issuance of Securities and transactions of Financial Instruments, etc. and to facilitate the smooth distribution of Securities, as well as to achieve fair price formation for Financial Instruments, etc. through the full utilization of the functions of the capital markets, by, inter alia, streamlining systems for the disclosure of corporate affairs, specifying the necessary particulars relevant to persons conducting Financial Instruments Business, and ensuring the appropriate operation of Financial Instruments Exchanges, thereby contributing to the sound development of the national economy and the protection of investors.

### (Definitions)

Article 2 (1) The term "Securities" as used in this Act means the following:

- (i) national government bonds;
- (ii) municipal bonds;
- (iii) debentures issued by a corporation pursuant to a special Act (excluding those set forth in the following item and item (xi));
- (iv) specified corporate bonds prescribed in the Act on the Securitization of Assets (Act No. 105 of 1998);
- (v) corporate bond certificates (including those issued by a mutual company; the same applies hereinafter);

- (vi) investment securities issued by a corporation incorporated pursuant to a special Act (excluding those set forth in the following item, item (viii) and item (xi));
- (vii) preferred equity investment certificates prescribed in the Act on Preferred Equity Investment by Cooperative Financial Institutions (Act No. 44 of 1993; (hereinafter referred to as the "Act on Preferred Equity Investment");
- (viii) preferred equity securities and securities indicating a right to subscribe for preferred equity which are prescribed in the Act on the Securitization of Assets;
- (ix) share certificates and share option certificates;
- (x) beneficiary certificates of an investment trust or foreign investment trust which are prescribed in the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951);
- (xi) investment securities or investment corporation bond certificates or foreign investment securities prescribed in the Act on Investment Trusts and Investment Corporations;
- (xii) beneficiary certificates of loan trusts;
- (xiii) beneficiary certificates of special purpose trusts prescribed in the Act on the Securitization of Assets;
- (xiv) beneficiary certificates of beneficiary certificate-issuing trusts prescribed in the Trust Act (Act No. 108 of 2006);
- (xv) promissory notes specified by Cabinet Office Ordinance which have been issued by a corporation in order to raise the funds necessary for business;
- (xvi) mortgage securities prescribed in the Mortgage Securities Act (Act No. 15 of 1931);
- (xvii) securities or certificates issued by a foreign state or foreign person, and which have the nature of the securities and certificates set forth in items (i) to (ix) inclusive or item (xii) to the preceding item inclusive (excluding those specified in the following item);
- (xviii) securities or certificates which are specified by Cabinet Office Ordinance, which are issued by a foreign person, and which indicate a beneficial interest in a trust that holds the loan claims of a person operating in the banking business or a person otherwise providing money loans in the course of trade, or indicate any other similar rights;
- (xix) securities or certificates that indicate the right to a transaction specified in paragraph (21), item (iii) which is conducted on a Financial Instruments Market, in accordance with the standards and means prescribed by the person operating the Financial Instruments Market, right to a transaction that is conducted on a foreign Financial Instruments Market (meaning a foreign Financial Instruments Market provided for in paragraph (8), item (iii), sub-item (b); hereinafter the same applies in this item) and which is

- similar to the transaction specified in paragraph (21), item (iii), or the right to a transaction specified in paragraph (22), item (iii) or (iv) which is conducted in neither a Financial Instruments Market nor a foreign Financial Instruments Market (such rights are hereinafter referred to as "Options");
- (xx) securities or certificates which the person with whom securities or certificates set forth in the preceding items has been deposited issues in a state other than the state in which the deposited securities or certificates were issued, and which indicate a right to the deposited securities or certificates; and
  - (xxi) securities or certificates other than those set forth in the preceding items, which are specified by Cabinet Order as those with regard to which, in consideration of transferability and other factors, it is found to be necessary to ensure the public interest or the protection of investors.
- (2) The rights that must be indicated on Securities set forth in items (i) to (xv) inclusive of the preceding paragraph, on Securities set forth in item (xvii) of that paragraph (excluding those with the nature of Securities set forth in item (xvi) of that paragraph), and on Securities set forth in item (xviii) of that paragraph; and the rights that must be indicated on the Securities set forth in item (xvi) of that paragraph, Securities set forth in item (xvii) of that paragraph (limited to those with the nature of Securities set forth in item (xvi) of that paragraph), and Securities set forth in items (xix) to (xxi) inclusive of that paragraph which are specified by Cabinet Office Ordinance (hereinafter collectively referred to as "Rights That Must Be Indicated on Securities" in this and the following paragraphs) are deemed to be the Securities indicating these rights even if Securities indicating these rights have not been issued; the Electronically Recorded Monetary Claims (meaning the Electronically Recorded Monetary Claims set forth in Article 2, paragraph (1) of the Electronically Recorded Monetary Claims Act (Act No. 102 of 2007); hereinafter the same applies in this paragraph) specified by Cabinet Order as those which, in consideration of transferability and other circumstances, it is found to be necessary to deem corporate bond certificates or any other Securities specified in the items of the preceding paragraph (referred to as the "Specified Electronically Recorded Monetary Claims" in item (vii) and the following paragraph), are deemed to be such Securities; the rights set forth in the following items are deemed to be the relevant Securities even if they are not rights which must be indicated on securities or certificates; and the provisions of this Act apply:
- (i) a beneficial interest in a trust (excluding a beneficial interest that must be indicated on the beneficiary certificates of an investment trust specified in item (x) of the preceding paragraph and a beneficial interest that must be indicated on Securities set forth in any of items (xii) to (xiv) inclusive of that

- paragraph);
- (ii) rights that are claimable against a foreign person and which have the nature of the rights specified in the preceding item (excluding rights that must be indicated on the beneficiary certificates of a foreign investment trust specified in item (x) of the preceding paragraph and rights that must be indicated on Securities set forth in item (xvii) or item (xviii) of that paragraph);
  - (iii) the membership rights of a general partnership company or limited partnership company (limited to rights specified by Cabinet Order) or membership rights of a limited liability company;
  - (iv) the membership rights of a foreign corporation which have the nature of rights specified in the preceding item;
  - (v) among the rights based on a partnership contract provided for in Article 667, paragraph (1) of the Civil Code (Act No. 89 of 1896), an silentpartnership agreement provided for in Article 535 of the Commercial Code (Act No. 48 of 1899), a limited partnership agreement for investment provided for in Article 3, paragraph (1) of the Limited Partnership Act for Investment (Act No. 90 of 1998), or a limited liability partnership agreement provided for in Article 3, paragraph (1) of the Limited Liability Partnership Act (Act No. 40 of 2005), membership rights in an incorporated association or other rights (excluding rights based on foreign laws and regulations) the holder of which (hereinafter referred to as an "Equity Holder" in this item) can receive dividends of profits arising from business that is conducted using the money (including anything specified by Cabinet Order as being similar to money) invested or contributed by the Equity Holder (such business is hereinafter referred to as "Invested Business" in this item) or a distribution of the assets of the Invested Business, which do not fall under one of the following categories (excluding rights that must be indicated on Securities set forth in the items of the preceding paragraph and rights deemed to be Securities pursuant to the provisions of this paragraph (excluding this item)):
    - (a) rights of an Equity Holder in cases specified by Cabinet Order as those in which all of the Equity Holders participate in the Invested Business;
    - (b) rights of an Equity Holder, if it is provided that Equity Holders will not receive dividends of profits or a distribution of the assets of the Invested Business in an amount exceeding the amount invested or contributed by them (excluding rights set forth in sub-item (a));
    - (c) rights based on an insurance contract in which a person that engages in the insurance business prescribed in Article 2, paragraph (1) of the Insurance Business Act (Act No. 105 of 1995) is the insurer, a mutual aid contract concluded with a cooperative prescribed in Article 5 of the

- Agricultural Cooperatives Act (Act No. 132 of 1947) which engages in the services prescribed in Article 10, paragraph (1), item (x) of that Act, a mutual aid contract concluded with a cooperative prescribed in Article 4 of the Consumer Cooperatives Act (Act No. 200 of 1948) which engages in the mutual aid services prescribed in Article 10, paragraph (2) of that Act, a mutual aid contract concluded with a cooperative prescribed in Article 2 of the Fisheries Cooperatives Act (Act No. 242 of 1948) which engages in the services prescribed in Article 11, paragraph (1), item (xi), Article 93, paragraph (1), item (vi)-2 or Article 100-2, paragraph (1), item (i) of that Act, a mutual aid contract concluded with a cooperative prescribed in Article 3 of the Small and Medium-Sized Enterprise Cooperatives Act (Act No. 181 of 1949) which engages in the mutual aid services prescribed in Article 9-2, paragraph (7) of that Act, or a specified joint real estate venture contract prescribed in Article 2, paragraph (3) of the Specified Joint Real Estate Ventures Act (Act No. 77 of 1994) (excluding rights set forth in sub-items (a) and (b)); or
- (d) rights other than those set forth in sub-items (a) to (c) inclusive, which are specified by Cabinet Order as rights in connection with which there is found to be no compromise to the public interest or to the protection of Equity Holders even if the rights are not deemed to be Securities;
- (vi) rights based on foreign laws and regulations which are similar to those specified in the preceding item; or
- (vii) rights other than Specified Electronically Recorded Monetary Claims and the rights set forth in the preceding items, which are specified by Cabinet Order as rights in connection with which it is found that, in consideration of their economic nature being similar to Securities prescribed in the preceding paragraph and rights set forth in the preceding items and in consideration of other circumstances, it is necessary and appropriate to ensure the public interest or the protection of investors, by deeming these rights to be Securities.
- (3) The term "Public Offering of Securities" as used in this Act means, among solicitations of offers to acquire newly issued Securities (including acts specified by Cabinet Office Ordinance as being similar to such solicitation (such acts are referred to as "Acts Similar to Solicitation of Offers to Acquire" in the following paragraph); hereinafter referred to as "Solicitation of Offers to Acquire"), the Solicitation of Offers to Acquire in cases provided for in item (i) or item (ii) below, which is issued with regard to Securities set forth in paragraph (1), Rights That Must Be Indicated on Securities, or Specified Electronically Recorded Monetary Claims that are deemed to be Securities under the preceding paragraph (such Securities or rights are referred to as "Article 2 (1) Securities" in the following paragraph, paragraph (6) of this

Article, paragraphs (4) and (5) of the following Article, and Article 23-13, paragraph (4)); and the Solicitation of Offers to Acquire in cases provided for in item (iii) below, which is issued with regard to rights that are deemed to be Securities under the items of the preceding paragraph (such rights are referred to as "Article 2 (2) Securities" in the following paragraph, paragraphs (4) and (5) of the following Article, and Article 23-13, paragraph (4)); the term "Private Placement of Securities" means Solicitation of Offers to Acquire which does not come within the purview of a Public Offering of Securities:

- (i) cases specified by Cabinet Order as those in which the Solicitation of Offers to Acquire is issued (unless the solicitation is issued only to Professional Investors) to a large number of persons (other than qualified institutional investors (meaning persons specified by Cabinet Office Ordinance as having expert knowledge of and experience with investment in Securities; the same applies hereinafter), if qualified institutional investors are included in the persons to which the Solicitation of Offers to Acquire is issued, and the Solicitation of Offers to Acquire constitutes a case specified by Cabinet Order as one in which there is little likelihood of the relevant Securities being transferred from the qualified institutional investor that acquires them to any person other than a qualified institutional investor);
- (ii) cases in which the Solicitation of Offers to Acquire is other than as specified in the preceding item, and in which it does not fall under any of the following sub-items:
  - (a) a Solicitation of Offers to Acquire issued only to qualified institutional investors and constituting a case specified by Cabinet Order as one in which there is little likelihood of the relevant Securities being transferred from the person that acquires them to any person other than a qualified institutional investor; and
  - (b) a Solicitation of Offers to Acquire issued only to Professional Investors and falling under all of the following requirements (excluding the cases specified in sub-item (a)):
    1. the other party to the Solicitation of Offers to Acquire is not the State, the Bank of Japan, or a qualified institutional investor, and the Solicitation of Offers to Acquire is issued by a Financial Services Provider , etc. (meaning a Financial Services Provider, etc. as prescribed in Article 34; the same applies in the following paragraph, Article 4, paragraph (1), item (iv) and paragraph (3), Article 27-32-2, and Article 27-34-2) based on entrustment by customers or on its own behalf;
    2. the Solicitation of Offers to Acquire comes under the purview of cases specified by Cabinet Order as those in which there is little likelihood of the relevant Securities being transferred from the person that acquires

them to any person other than a Professional Investor, etc. (meaning a Professional Investor or Non-Resident (meaning a non-resident as defined in Article 6, paragraph (1), item (vi) of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949)), and limited to those specified by Cabinet Order; the same applies hereinafter).

- (c) a Solicitation of Offers to Acquire falling under neither the case specified in the preceding item, nor sub-items (a) and (b) of this item (except if the Solicitation of Offers to Acquire meets the requirements that are specified by Cabinet Order in consideration of the status, etc. of the issuance and solicitation of Securities of the same class as the relevant Securities), and constituting a case specified by Cabinet Order as one in which there is little likelihood of the relevant Securities being held by a large number of persons.
  - (iii) cases specified by Cabinet Order as those in which, in response to the Solicitation of Offers to Acquire, a considerably large number of persons will come to hold the Securities connected with the solicitation.
- (4) The term "Secondary Distribution of Securities" as used in this Act means, among offers to sell and solicitation of offers to purchase already-issued Securities (excluding offers and solicitation coming under the purview of Acts Similar to the Solicitation of Offers to Acquire and any other offer or solicitation specified by Cabinet Office Ordinance; hereinafter referred to as an "Offer to Sell, etc."), Offers to Sell, etc. in cases provided for in item (i) or item (ii), which are made with regard to Article 2 (1) Securities; and Offers to Sell, etc. in cases provided for in item (iii), which are made with regard to Article 2 (2) Securities (excluding an Offer to Sell, etc. that involves the purchase and sale of Securities on a Financial Instruments Exchange Market, a transaction equivalent thereto, and any other Securities transactions specified by Cabinet Order):
- (i) cases specified by Cabinet Order as those in which the Offer to Sell, etc. is made (unless the offer is made only to Professional Investors) to a large number of persons (other than qualified institutional investors, if qualified institutional investors are included in the persons to which the Offer to Sell, etc. is made, and if the Offer to Sell, etc. constitutes a case specified by Cabinet Order as one in which there is little likelihood of the relevant Securities being transferred from the qualified institutional investor that acquires them to any person other than a qualified institutional investor);
  - (ii) cases in which the Offer to Sell, etc. is other than as specified in the preceding item, and in which it does not fall under any of the following sub-items:
    - (a) an Offer to Sell, etc. made only to qualified institutional investors and constituting a case specified by Cabinet Order as one in which there is

- little likelihood of the relevant Securities being transferred from the person that acquires them to any person other than a qualified institutional investor;
- (b) an Offer to Sell, etc. made only to Professional Investors and falling under all of the following requirements (excluding the cases specified in sub-item (a)):
1. the other party to the Offer to Sell, etc. is not the State, the Bank of Japan, or a qualified institutional investor, and the Offer to Sell, etc. is made by a Financial Services Provider, etc. based on entrustment by a customer or on its own behalf;
  2. the Offer to Sell, etc. comes under the purview of cases specified by Cabinet Order as those in which there is little likelihood of the relevant Securities being transferred from the person that acquires them to any person other than a Professional Investor, etc.
- (c) an Offer to Sell, etc. falling under neither the case specified in the preceding item, nor sub-items (a) and (b) of this item (except if the Offer to Sell, etc. meets the requirements that are specified by Cabinet Order in consideration of the status, etc. of the issuance and solicitation of Securities of the same class as the relevant Securities), and constituting a case specified by Cabinet Order as one in which there is little likelihood of the relevant Securities being held by a large number of persons.
- (iii) cases specified by Cabinet Order as those in which, in response to the Offer to Sell, etc., a considerably large number of persons will come to hold the Securities connected with the offer.
- (5) The term "Issuer" as used in this Act means the person that issues, or seeks to issue, Securities (or the person specified by Cabinet Office Ordinance with regard to the Securities specified by Cabinet Office Ordinance); and rights other than those which must be indicated on securities or certificates, but which are deemed to be Securities pursuant to paragraph (2), are deemed to have been issued as Securities by the person specified by Cabinet Office Ordinance for each kind of right, at the time specified by Cabinet Office Ordinance.
- (6) The term "Underwriter" as used in this Act (excluding Chapter V) means a person that, at the time of a Public Offering, Secondary Distribution, or Private Placement of Securities, or the time of an exclusive Offer to Sell, etc. to Professional Investors (meaning an Offer to Sell, etc. Article 2 (1) Securities which falls under paragraph (4), item (ii), sub-item (b) (excluding an Offer to Sell, etc. involving the purchase and sale of Securities on a Financial Instruments Exchange Market, a transaction equivalent thereto, and any other transaction of Securities specified by Cabinet Order; the same applies hereinafter) involving Securities, does either of the things set forth in the

following items:

- (i) acquires all or part of the relevant Securities with the aim of having other persons acquire them; or
  - (ii) concludes a contract stipulating that if no other person acquires all or part of the relevant Securities, the Underwriter will acquire those that remain.
- (7) The term "Registration Statement" as used in this Act means the statement referred to in Article 5, paragraph (1) (including as applied mutatis mutandis pursuant to Article 5, paragraph (5); the same applies hereinafter), documents accompanying it pursuant to Article 5, paragraph (6), and any amended statement as under Article 7, Article 9, paragraph (1) or Article 10, paragraph (1).
- (8) The term "Financial Instruments Business" as used in this Act means performance of any of the following acts (excluding those that are specified by Cabinet Order as acts which, in consideration of their content and other factors, are found not to compromise the protection of investors, and the acts set forth in item (xii), (xiv), and (xv) of this paragraph and in the items of Article 28, paragraph (8), when performed by a bank, a Cooperative Financial Institution defined in Article 2, paragraph (1) of the Act on Preferred Equity Investment (hereinafter referred to as a "Cooperative Financial Institution") or other financial institution specified by Cabinet Order) in the course of trade:
- (i) the purchase and sale of Securities (excluding those falling under the category of Derivatives Transactions; the same applies hereinafter), Market Transactions of Derivatives, or Foreign Market Transaction of Derivatives (excluding the purchase and sale of Securities falling under item (x));
  - (ii) intermediation, brokerage (excluding Brokerage for the Clearing of Securities, etc.), or agency for the purchase and sale of Securities, Market Transaction of Derivatives, or Foreign Market Transactions of Derivatives (excluding intermediation, brokerage, or agency for the purchase and sale of Securities which falls under item (x));
  - (iii) intermediation, brokerage, or agency for entrustment of the following transactions:
    - (a) the purchase and sale of Securities or Market Transactions of Derivatives on a Financial Instruments Exchange Market;
    - (b) the purchase and sale of Securities or Foreign Market Transaction of Derivatives on a foreign Financial Instruments Market (meaning a market in a foreign state which is similar to a Financial Instruments Exchange Market; the same applies hereinafter).
  - (iv) Over-the-Counter Derivatives Transactions or intermediation, brokerage (excluding Brokerage for the Clearing of Securities, etc.), or agency for it (hereinafter referred to as "Over-the-Counter Derivatives Transactions, etc.");

- (v) Brokerage for the Clearing of Securities, etc.;
- (vi) the underwriting of Securities (meaning doing any of the things set forth in an item of paragraph (6) at the time of a Public Offering, Secondary Distribution, Private Placement of Securities, or exclusive Offer to Sell, etc. to Professional Investors);
- (vii) the Public Offering or Private Placement of Securities (limited to those set forth in the following items):
  - (a) beneficiary certificates of investment trusts specified in paragraph (1), item (x) which are connected to the beneficial interest in an Investment Trust Managed Under Instructions from the Settlor provided for in Article 2, paragraph (1) of the Act on Investment Trusts and Investment Corporations;
  - (b) beneficiary certificates of foreign investment trusts specified in paragraph (1), item (x);
  - (c) Securities specified in paragraph (1), item (xvi);
  - (d) Securities specified in paragraph (1), item (xvii) which have the nature of Securities specified in item (xvi) of that paragraph;
  - (e) rights that must be indicated on the Securities specified in sub-item (a) or sub-item (b) above, or rights that must be indicated on the Securities under sub-item (c) or sub-item (d) above which are specified by Cabinet Office Ordinance, which are deemed to be Securities pursuant to paragraph (2);
  - (f) rights specified in paragraph (2), item (v) or item (vi) which are deemed to be Securities pursuant to that paragraph; and
  - (g) the Securities other than those set forth in sub-items (a) to (f) inclusive which are specified by Cabinet Order.
- (viii) Secondary Distribution of Securities or exclusive Offer to Sell, etc. to Professional Investors;
- (ix) the handling of a Public Offering or Secondary Distribution of Securities, or the handling of a Private Placement of Securities or exclusive Offer to Sell, etc. to Professional Investors;
- (x) the purchase and sale of Securities or intermediation, brokerage, or agency for it, using an electronic data processing system, conducted through any of the following price formation methods or other similar methods, with a large number of persons participating simultaneously as parties on one side of the transaction or as parties on both sides of the transaction (excluding those specified by Cabinet Order as transactions that are found to be inappropriate in terms of investor protection if conducted outside a Financial Instruments Exchange Market or an Over-the-Counter Securities Market (meaning an Over-the-Counter Securities Market provided for in Article 67, paragraph (2)));
  - (a) by auction (but only if the trading volume of Securities does not exceed

- the criteria specified by Cabinet Order);
- (b) for Securities listed on a Financial Instruments Exchange, by using the trading price of the Securities on the Financial Instruments Exchange Market that is operated by the relevant Financial Instruments Exchange;
  - (c) for Securities registered under Article 67-11, paragraph (1) (hereinafter referred to as "Over-the-Counter Traded Securities"), by using the trading price of the Securities which is published by the Authorized Financial Instruments Business Association to which the Securities are registered;
  - (d) by using the price decided by negotiation between the customers; and
  - (e) methods other than those set forth in sub-item (a) to (d) inclusive, which are specified by Cabinet Office Ordinance.
- (xi) conclusion of a contract in which one of the parties promises to provide the other party with oral, written (excluding newspapers, magazines, books, or any other written work that is issued for sale to many and unspecified persons and which many and unspecified persons can buy as needed), or any other form of advice about the following things, and the other party promises to pay remuneration for this (such a contract is hereinafter referred to as an "Investment Advisory Contract"), and provision of advice under such Investment Advisory Contract;
- (a) the value, etc. of Securities (meaning the value of Securities, the amount receivable for Options on Securities (meaning the right to conduct a transaction provided for in Article 28, paragraph (8), item (iii), sub-item (c) on a Financial Instruments Market in accordance with the standards and means prescribed by the person operating the Financial Instruments Market, the right to conduct a transaction similar to the transaction provided for in Article 28, paragraph (8), item (iii), sub-item (c) on a foreign Financial Instruments Market, or the right to conduct a transaction set forth in item (iv), sub-item (c) or sub-item (d) of that paragraph without using a Financial Instruments Market or foreign Financial Instruments Market), and the movement of Securities indicators (meaning the price or interest rate of Securities and anything else specified by Cabinet Office Ordinance as being equivalent thereto, or figures calculated based thereon)); or
  - (b) investment decisions (meaning decisions on the classes, issues, volumes, or prices of Securities targeted for investment, as well as whether the Securities are purchased or sold and by what method and at what timing, and decisions on what should be the contents and timing of any Derivatives Transactions that are conducted; the same applies hereinafter) based on an analysis of the values, etc. of Financial Instruments (meaning the value of Financial Instruments, amount receivable for Options, and movement of Financial Indicators; the same applies hereinafter).

- (xii) conclusion of the following contracts, and the management of money or any other property (including instructions for that management; the same applies hereinafter), based on such contract, as an investment in Securities or in rights connected with Derivative Transactions, based on investment decisions that are grounded in an analysis of the values, etc. of Financial Instruments;
  - (a) an entrustment contract for the asset management provided for in Article 188, paragraph (1), item (iv) of the Act on Investment Trusts and Investment Corporations, concluded with a registered investment corporation as defined in Article 2, paragraph (13) of that Act; or
  - (b) a contract other than what is set forth in sub-item (a), in which one of the parties is fully or partly entrusted by the other party with the discretion to make investment decisions based on an analysis of the values, etc. of Financial Instruments, and is also entrusted with the authority necessary to make investments on behalf of the other party based on such investment decisions (such a contract is hereinafter referred to as a "Discretionary Investment Contract").
- (xiii) agency or intermediation for the conclusion of an Investment Advisory Contract or a Discretionary Investment Contract;
- (xiv) the management (excluding management that falls under the category of act set forth in (xii)) of money or other property contributed by a person that holds rights indicated on the Securities specified in paragraph (1), item (x) or other rights specified by Cabinet Order, as an investment in Securities or in rights connected with Derivatives Transactions, based on investment decisions that are grounded in an analysis of the values, etc. of Financial Instruments;
- (xv) the management (excluding management that falls under the category of act set forth in (xii)) of money or other property invested or contributed by a person that holds the following rights or other rights specified by Cabinet Order, as an investment mainly in Securities or in rights connected with Derivatives Transactions, based on investment decisions that are grounded in an analysis of the values, etc. of Financial Instruments;
  - (a) rights indicated on the Securities specified in paragraph (1), item (xiv) or Securities specified in item (xvii) of that paragraph (limited to those that have the nature of the Securities specified in item (xiv) of that paragraph);
  - (b) rights set forth in paragraph (2), item (i) or (ii); or
  - (c) rights set forth in paragraph (2), item (v) or (vi).
- (xvi) the acceptance of deposits of money or securities or the certificates set forth in the items of paragraph (1) from customers, in connection with an act set forth in items (i) to (x) inclusive of this paragraph;
- (xvii) the transfer of bonds, etc. in response to the opening of an account in

order to carry out a transfer of the bonds, etc. defined in Article 2, paragraph (1) of the Act on Transfer of Corporate Bonds, etc. (Act No. 75 of 2001); or (xviii) acts specified by Cabinet Order as being similar to the acts set forth in the preceding items.

- (9) The term "Financial Services Provider " as used in this Act means a person registered by the Prime Minister pursuant to Article 29.
- (10) The term "Prospectus" as used in this Act means a document describing the business and other particulars of an Issuer of Securities, which is prepared for a Public Offering or Secondary Distribution of Securities, a General Solicitation for Involving Securities Acquired by a Qualified Institutional Investor as defined in Article 4, paragraph (2) (excluding those falling under the category of Secondary Distribution of Securities), or a General Solicitation Involving Securities Acquired by a Professional Investor as set forth in Article 4, paragraph (3) (excluding those falling under the category of a Secondary Distribution of Securities), and which is delivered, or is to be delivered upon request, to the other party to the Public Offering or Secondary Distribution.
- (11) The term "Financial Instruments Intermediation " as used in this Act means services that fall under the category of any of the following acts (excluding the act provided for in item (iv) below if performed by a person engaged in Investment Management as defined in Article 28, paragraph (4)), which are provided for and under entrustment from a Financial Services Provider (limited to a person that engages in the Type I Financial Instruments Business provided for in Article 28, paragraph (1) or Investment Management provided for in Article 28, paragraph (4)) or a registered financial institution (meaning a bank, Cooperative Financial Institution, or other financial institution specified by Cabinet Order, which is registered as under Article 33-2; the same applies hereinafter):
- (i) intermediation for the purchase and sale of Securities (excluding intermediation set forth in paragraph (8), item (x));
  - (ii) the intermediation set forth in paragraph (8), item (iii);
  - (iii) the act set forth in paragraph (8), item (ix); or
  - (iv) the intermediation set forth in paragraph (8), item (xiii).
- (12) The term "Financial Instruments Intermediary" as used in this Act means a person registered by the Prime Minister pursuant to Article 66.
- (13) The term "Authorized Financial Instruments Business Association" as used in this Act means a person incorporated based on the provisions of Chapter IV, Section 1, Subsection 1.
- (14) The term "Financial Instruments Market" as used in this Act means a market on which the purchase and sale of Securities or Market Transactions of Derivatives are conducted.
- (15) The term "Financial Instruments Incorporated Association" as used in this

Act means a membership association incorporated based on the provisions of Chapter V, Section 2, Subsection 1 for the purpose of operating a Financial Instruments Market.

- (16) The term "Financial Instruments Exchange" as used in this Act means a Financial Instruments Incorporated Association or stock company which operates a Financial Instruments Market after being licensed by the Prime Minister pursuant to Article 80, paragraph (1).
- (17) The term "Financial Instruments Exchange Market" as used in this Act means a Financial Instruments Market operated by a Financial Instruments Exchange.
- (18) The term "Financial Instruments Exchange Holding Company" as used in this Act means a stock company whose Subsidiary Companies (meaning a Subsidiary Company as set forth in Article 87-3, paragraph (3)) include a stock company that operates a Financial Instruments Exchange Market (hereinafter referred to as a "Stock Company-Operated Financial Instruments Exchange"), which is incorporated after obtaining the authorization of the Prime Minister pursuant Article 106-10, paragraph (1) or which has obtained the authorization of the Prime Minister pursuant to that paragraph or the proviso to paragraph (3) of that Article.
- (19) The term "Trading Participant" as used in this Act means a person that is allowed to participate in the purchase and sale of Securities or Market Transactions of Derivatives on a Financial Instruments Exchange Market, based on a trading license under Article 112, paragraph (1) or Article 113, paragraph (1).
- (20) The term "Derivatives Transactions" as used in this Act means Market Transaction of Derivatives, Over-the-Counter Derivatives Transactions or Foreign Market Transaction of Derivatives.
- (21) The term "Market Transactions of Derivatives" as used in this Act means the following transactions as conducted on a Financial Instruments Market in compliance with the standards and means prescribed by the person that operates the Financial Instruments Market:
- (i) a transaction comprising a purchase and sale in which the parties promise to deliver and take delivery of a Financial Instrument and its value at a fixed time in the future, which the parties may settle by delivering and taking delivery of the difference in values if they sell or buy back the underlying Financial Instrument;
  - (ii) a transaction comprising the parties' promises to pay and receive an amount of money calculated based on the difference between the numerical value of a Financial Indicator upon which the parties agree in advance (hereinafter referred to as the "Agreed Figure") and the actual numerical value of the Financial Indicator at a fixed time in the future (hereinafter

- referred to as the "Actual Figure");
- (iii) a transaction comprising the first party's promise to grant the second party the option of effecting one of the following transactions between them by a unilateral manifestation of the second party's intention alone, and the second party's promise to pay the value of that option:
    - (a) the purchase and sale of Financial Instruments (excluding a transaction provided for in item (i)); or
    - (b) a transaction provided for in one of the preceding two items or in the following item to item (vi) inclusive (including any transaction designated by the Financial Instruments Exchange that is equivalent to a transaction specified in the preceding item).
  - (iv) a transaction comprising the parties' mutual promise that, for the amount of money they have set as the principal, the first party will pay money to the second based on the rate of change in the interest rate, etc. (meaning the interest rate or any other rate specified by Cabinet Office Ordinance as being equivalent thereto; the same applies hereinafter) of an agreed-upon Financial Instrument (excluding those set forth in Article 2, paragraph (24), item (iii)) or based on the rate of change in an agreed-upon Financial Indicator (excluding interest rates, etc. of Financial Instruments (excluding those set forth in Article 2, paragraph (24), item (iii)) and figures calculated based on them; hereinafter the same applies in this item and item (v) of the following paragraph) during the period they have agreed to, and the second party will pay money to the first based on the rate of change in the interest rate, etc. of an agreed-upon Financial Instrument (excluding those set forth in Article 2, paragraph (24), item (iii)) or based on the rate of change in an agreed-upon Financial Indicator during the period they have agreed to (including transactions in which the parties promise that, in addition to paying such amounts, they will also pay or deliver and receive money or Financial Instruments equivalent to the amount they have set as the principal);
  - (v) a transaction comprising the first party's promise to pay money to the second, and the second party's promise to pay money to the first if one of the following causes that the parties have stipulated in advance occurs (including transactions comprising the first party's promise to transfer a Financial Instrument, the rights connected to a Financial Instrument, or a monetary claim (other than a claim that constitutes a Financial Instrument or the rights connected to a Financial Instrument), but excluding transactions set forth in the preceding three items):
    - (a) a cause involving the credit status of a corporation or other similar cause as specified by Cabinet Order; or
    - (b) a cause on whose occurrence it is impossible or extremely difficult for

either party to exert an influence, and which is specified by Cabinet Order as something that may have material impact on the business activities of the parties or other business persons or firms (excluding causes specified in sub-item (a)).

(vi) transactions similar to a transaction set forth in the preceding items and specified by Cabinet Order.

(22) The term "Over-the-Counter Derivatives Transactions" as used in this Act means the following transactions as conducted neither on a Financial Instruments Market nor on a foreign Financial Instruments Market (except those that are specified by Cabinet Order as transactions which, in consideration of their content and other related factors, are found not to compromise the public interest or the protection of investors).

(i) a transaction comprising a purchase and sale in which the parties to the purchase and sale promise to deliver and take delivery of a Financial Instrument (other than one set forth in paragraph (24), item (v); hereinafter the same applies in this paragraph) and its value at a fixed time in the future, and which the parties may settle by delivering and taking delivery of the difference in values if they sell back or buy back the underlying Financial Instrument or if they take some other action that is specified by Cabinet Order;

(ii) a transaction comprising the parties' promises to pay and receive an amount of money calculated based on the difference between the Agreed Figure and the Actual Figure, or any transaction similar thereto; and

(iii) a transaction comprising the first party's promise to grant the second party the option of effecting one of the following transactions between them by a unilateral manifestation of the second party's intention alone, and the second party's promise to pay the value of that option, or any transaction similar thereto:

(a) the purchase and sale of Financial Instruments (excluding the transactions specified in item (i)); or

(b) a transaction provided for in the preceding two items or items (v) to (vii) inclusive;

(iv) a transaction comprising, on one side, the first party's promise to grant the second party the option of effecting a transaction by a unilateral manifestation of the second party's intention alone, in which the parties pay and receive the amount of money calculated based on the difference between the numerical value that they have agreed in advance to use as the Agreed Figure for the relevant Financial Indicator if the second party manifests the intention to effect the transaction, and the Actual Figure of the Financial Indicator at the time the second party manifests that intention, and, on the other side, the second party's promise to pay the value of that option, or any

- transaction similar thereto;
- (v) a transaction comprising the parties' mutual promise that, for the amount they have set as the principal, the first party will pay money to the second based on the interest rate, etc. of an agreed-upon Financial Instrument (excluding one as set forth in Article 2, paragraph (24), item (iii)) or based on the rate of change in an agreed-upon Financial Indicator during the period they have agreed to, and the second party will pay money to the first based on the interest rate, etc. of an agreed-upon Financial Instrument (excluding those set forth in Article 2, paragraph (24), item (iii)) or based on the rate of change in an agreed-upon Financial Indicator during the period they have agreed to (including transactions in which the parties promise that, in addition paying such amounts, they will also pay or deliver and receive money or Financial Instruments equivalent to the amount they have set as the principal), or any transaction similar thereto;
  - (vi) a transaction comprising the first party's promise to pay money to the second, and the second party's promise to pay money to the first if one of the following causes that the parties have stipulated in advance occurs (including transactions comprising the first party's promise to transfer a Financial Instrument, the rights connected to a Financial Instrument, or a monetary claim (other than a claim that constitutes a Financial Instrument or the rights connected to a Financial Instrument), but excluding the transactions set forth in item (ii) to the preceding item inclusive), or any transaction similar thereto:
    - (a) a cause involving the credit status of a corporation or other similar cause as specified by Cabinet Order; or
    - (b) a cause on whose occurrence it is impossible or extremely difficult for either party to exert an influence, and which is specified by Cabinet Order as something that may have a material impact on the business activities of the parties or other persons or firms (excluding causes specified in sub-item (a)).
  - (vii) a transaction other than what is set forth in the preceding items, but which has an economic nature similar thereto and is specified by Cabinet Order as a transaction regarding which it is found to be necessary to ensure the public interest or the protection of investors.
- (23) The term "Foreign Market Transaction of Derivatives " as used in this Act means a transaction that is conducted on a foreign Financial Instruments Market and is similar to a Market Transaction of Derivatives.
- (24) The term "Financial Instruments" as used in this Act means the following:
- (i) Securities;
  - (ii) rights such as claims based on a deposit contract, or securities or certificates indicating such rights, which are specified by Cabinet Order

- (excluding those specified in the preceding item);
- (iii) currencies;
  - (iv) assets other than what is set forth in the preceding three items, of which there are many of the same kind, which have substantial price volatility, and which are specified by Cabinet Order as assets in connection with which it is found necessary to secure the protection of investors with regard to Derivatives Transactions (or other similar transactions) thereof (excluding commodities defined in Article 2, paragraph (1) of the Commodity Futures Act (Act No. 239 of 1950)); and
  - (v) standardized instruments used by a Financial Instruments Exchange for the purpose of facilitating Market Transactions of Derivatives by standardizing interest rates, the maturity period, or other conditions of Financial Instruments set forth in item (i) or item (ii) or the preceding item and specified by Cabinet Office Ordinance.
- (25) The term "Financial Indicator" as used in this Act means the following:
- (i) the price of a Financial Instrument or the interest rate, etc. of a Financial Instrument (excluding those specified in item (iii) of the preceding paragraph);
  - (ii) the numerical values associated with the results of meteorological observations published by the Meteorological Agency and others;
  - (iii) among indicators on whose fluctuation it is impossible or extremely difficult for a person to exert an influence and which may have material impact on the business activities of business firms (excluding indicators provided for in the preceding item) and statistical values associated with social or economic conditions, the indicators and values specified by Cabinet Order as those in connection with which it is found to be necessary to ensure protection for investors with regard to Derivatives Transactions (or other similar transactions) related thereto (excluding commodity indices provided for in Article 2, paragraph (2) of the Commodity Futures Act); and
  - (iv) numerical values calculated based on anything provided for in the preceding three items.
- (26) The term "Foreign Financial Instruments Exchange" as used in this Act means a person that has obtained the authorization of the Prime Minister pursuant to Article 155, paragraph (1).
- (27) The term "Brokerage for the Clearing of Securities, etc." as used in this Act means a subject transaction (meaning a "subject transaction" as defined in the following paragraph; hereinafter the same applies in this paragraph) that is effected by a Financial Services Provider or registered financial institution under entrustment from a customer and on the account of the customer in accordance with the business rules of the Financial Instruments Clearing Organization or Foreign Financial Instruments Clearing Organization, which

is effected on the condition that the obligation that arises from the subject transaction will be borne by the Financial Instruments Clearing Organization (if such Financial Instruments Clearing Organization performs collaborative Financial Instruments Debt Assumption Services prescribed in Article 156-20-16, paragraph (1), this includes the collaborating Clearing Organization, etc. set forth in said paragraph) or the Foreign Financial Instruments Clearing Organization, and which satisfies either of the following requirements:

- (i) the subject transaction is effected by the customer on behalf of the Financial Services Provider or registered financial institution; or
- (ii) the customer specifies the other party to the subject transaction and other particulars specified by Cabinet Office Ordinance in advance, at the time of the entrustment.

(28) The term "Financial Instruments Debt Assumption Services" as used in this Act means taking over, novating, or in any other way bearing, in the course of trade, the obligations of a Financial Services Provider, registered financial institution, or Securities Finance Company (hereinafter referred to as a "Business Counterparty to Financial Instruments Debt Assumption Services" in this paragraph) which arise from subject transactions (meaning the purchase and sale of Securities, Derivatives Transactions (except those that are specified by Cabinet Order as transactions which, in consideration of the status of the transactions, the impact exerted on Japan's capital market, and other circumstances, are found not to compromise the public interest or the protection of investors), or transactions specified by Cabinet Order as incidental or related thereto) effected by, a Business Counterparty to Financial Instruments Debt Assumption Services.

(29) The term "Financial Instruments Clearing Organization" as used in this Act means a person that engages in Financial Instruments Debt Assumption Services after being licensed by the Prime Minister or obtaining the approval of the Prime Minister pursuant to Article 156-2 or Article 156-19, paragraph (1), and the term "Foreign Financial Instruments Clearing Organization" as used in this Act means a person that engages in Financial Instruments Debt Assumption Service after being licensed by the Prime Minister pursuant to Article 156-20-2.

(30) The term "Securities Finance Company" as used in this Act means a person that has been licensed by the Prime Minister pursuant to Article 156-24.

(31) The term "Professional Investor" as used in this Act means the following:

- (i) qualified institutional investors;
- (ii) the State;
- (iii) the Bank of Japan; and
- (iv) Investor Protection Funds prescribed in Article 79-21 and other corporations specified by Cabinet Office Ordinance beyond those set forth in

the preceding three items.

- (32) The term "Specified Financial Instruments Exchange Market" as used in this Act means a Financial Instruments Exchange Market on which, pursuant to the provisions of Article 117-2, paragraph (1), it is prohibited to make a Purchase for a General Investor as defined in that paragraph.
- (33) The term "Specified Listed Securities" as used in this Act means Securities listed only on a Specified Financial Instruments Exchange Market.
- (34) The term "Credit Rating" as used in this Act means a grade which indicates, through symbols or figures (including anything specified by Cabinet Office Ordinance as being similar thereto), the results of an assessment of the credit status of a Financial Instrument or a corporation (including anything specified by Cabinet Office Ordinance as being similar thereto) (such assessment is hereinafter referred to as "Creditworthiness" in this paragraph) (such grade excludes grades specified by Cabinet Office Ordinance as being determined mainly in consideration of any particular other than Creditworthiness).
- (35) The term "Credit Rating Services" as used in this Act means engagement in the act of determining Credit Ratings and providing them or making them available for inspection (excluding acts specified by Cabinet Office Ordinance as those that are found to have little likelihood of resulting in insufficient investor protection, in light of the scope of the other party to the act and any other circumstances) in the course of trade.
- (36) The term "Credit Rating Agency" as used in this Act means a person registered by the Prime Minister pursuant to Article 66-27.
- (37) The term "Financial Instruments Exchange Engaged in the Operation of a Commodity Market" as used in this Act means a Stock Company-Operated Financial Instruments Exchange that operates the necessary market for effecting Commodity Futures Transactions (meaning Futures Transactions prescribed in Article 2, paragraph (3) of the Commodity Futures Act; the same applies hereinafter), with the authorization referred to in the proviso to Article 87-2, paragraph (1).
- (38) The term "Commodity Exchange" as used in this Act means an Incorporated Association-Operated Commodity Exchange Operated as an (meaning an Incorporated Association-Operated Commodity Exchange as prescribed in Article 2, paragraph (5) of the Commodity Futures Act) or a Stock Company-Operated Commodity Exchange (meaning a Stock Company-Operated Commodity Exchange as prescribed in paragraph (6) of that Article and limited to those specified by Cabinet Order as being subject to restrictions that are found to be of the same level as restrictions on a Stock Company-Operated Financial Instruments Exchange).
- (39) The term "Commodity Exchange Holding Company" as used in this Act means a Commodity Exchange Holding Company as defined in Article 2,

paragraph (11) of the Commodity Futures Act (limited to those specified by Cabinet Order as being subject to restrictions that are found to be of the same level as restrictions on a Financial Instruments Exchange Holding Company).

## **Chapter II Disclosure of Corporate Affairs**

(Reorganization and Other Terms Used in This Chapter)

Article 2-2 (1) The term "Reorganization" as used in this Chapter means merger, company split, share exchange, or other act involving the organization of a company which is specified by Cabinet Order.

(2) The term "Procedures Related to the Issuance of Securities During a Reorganization" as used in this Chapter means the Keeping of Documents, etc. (meaning the keeping of the documents or electronic or magnetic records under Article 782, paragraph (1) of the Companies Act (Act No. 86 of 2005) or the keeping of the documents or electronic or magnetic records under Article 803, paragraph (1) of that Act; the same applies in the following paragraph) connected with a Reorganization in which new Securities are issued (including cases specified by Cabinet Office Ordinance as being similar thereto (such cases are referred to as "Procedures for Cases Similar to the Issuance of Securities During a Reorganization" in the following paragraph)), and other acts specified by Cabinet Order.

(3) The term "Procedures Related to the Delivery of Securities During a Reorganization" as used in this Chapter means the Keeping of Documents, etc. connected to a Reorganization in which existing Securities are delivered (excluding cases that fall under the category of Procedures for Cases Similar to the Issuance of Securities During a Reorganization), and other acts specified by Cabinet Order.

(4) The term "Specified Procedures Related to the Issuance of Securities During a Reorganization" as used in this Chapter means, among Procedures Related to the Issuance of Securities During a Reorganization, those that fall under cases specified in item (i) or (ii) below if the Procedures Related to the Issuance of Securities During a Reorganization involve Article 2 (1) Securities, and those that fall under cases specified in item (iii) if the Procedures Related to the Issuance of Securities During a Reorganization involve Article 2 (2) Securities:

(i) cases specified by Cabinet Order as those in which a large number of persons are holders of share certificates (including share option certificates and other Securities specified by Cabinet Order) whose issuer is a company that, due to a Reorganization, will become a Company Disappearing in an Absorption-Type Merger (meaning a Company Disappearing in an Absorption-Type Merger as defined in Article 749, paragraph (1), item (i) of the Companies Act), or a Wholly Owned Subsidiary Company in a Share

- Exchange (meaning the Wholly Owned Subsidiary Company in a Share Exchange as defined in Article 768, paragraph (1), item (i) of that Act), or whose issuer is any other company specified by Cabinet Order (referred to as the "Reorganizing Company" in Article 4, paragraph (1), item (ii), sub-item (a)) (such holders are hereinafter referred to as the "Reorganizing Company's Shareholders, etc.")(such cases exclude those in which the Reorganizing Company's Shareholders, etc. consist exclusively of Qualified Institutional Investors);
- (ii) cases other than those provided for in the preceding item, which do not fall under any of the following:
    - (a) cases in which the Reorganizing Company's Shareholders, etc. consist exclusively of Qualified Institutional Investors, and which are specified by Cabinet Order as those in which there is little likelihood of the Securities that are subject to the Procedures Related to the Issuance of Securities During a Reorganization being transferred from a person that acquires them to any person other than a Qualified Institutional Investor; or
    - (b) cases other than those specified in the preceding item (i) or in sub-item (a) (excluding cases satisfying the requirements that are specified by Cabinet Order in consideration of the status, etc. of issuance and delivery of Securities of the same class as the Securities subject to the Procedures Related to the Issuance of Securities During the Reorganization), which are specified by Cabinet Order as those in which there is little likelihood of the Securities that are subject to said Procedures Related to the Issuance of Securities During the Reorganization being held by a large number of persons.
    - (iii) cases specified by Cabinet Order as those in which the Reorganizing Company's Shareholders, etc. constitute a considerably large number of persons.
  - (5) The term "Specified Procedures Related to the Delivery of Securities During a Reorganization" as used in this Chapter means, among the Procedures Related to the Delivery of Securities During a Reorganization, those that fall under cases specified in item (i) or item (ii) if the Procedures Related to the Delivery of Securities During a Reorganization involve Article 2 (1) Securities, and those that fall under cases specified in item (iii) if the Procedures Related to the Delivery of Securities During a Reorganization involve Article 2 (2) Securities:
    - (i) cases specified by Cabinet Order as those in which the Reorganizing Company's Shareholders, etc. constitute a large number of persons (excluding cases in which the Reorganizing Company's Shareholders, etc. consist exclusively of Qualified Institutional Investors); and
    - (ii) cases other than those provided for in the preceding item, which do not fall under any of the following:

- (a) cases in which the Reorganizing Company's Shareholders, etc. consist exclusively of Qualified Institutional Investors, and which are specified by Cabinet Order as those in which there is little likelihood of the Securities that are subject to the Procedures Related to the Delivery of Securities During a Reorganization being transferred from a person that acquires them to any person other than a Qualified Institutional Investor; and
- (b) cases other than those specified in the preceding item or in sub-item (a) (excluding cases satisfying the requirements that are specified by Cabinet Order in consideration of the status, etc. of issuance and delivery of Securities of the same class as the Securities subject to the Procedures Related to the Delivery of Securities During a Reorganization), which are specified by Cabinet Order as those in which there is little likelihood of the Securities that are subject to said Procedures Related to the Delivery of Securities During a Reorganization being held by a large number of persons; and
- (iii) cases specified by Cabinet Order as those in which the Reorganizing Company's Shareholders, etc. constitute a considerably large number of persons.

(Exempted Securities)

Article 3 The provisions of this Chapter do not apply to the following Securities:

- (i) Securities set forth in Article 2, paragraph (1), items (i) and (ii);
- (ii) Securities set forth in Article 2, paragraph (1), items (iii), (vi), and (xii) (excluding Securities that are specified by Cabinet Order as Securities with regard to which the public interest or the protection of investors makes it necessary and appropriate for corporate affairs to be disclosed); and
- (iii) rights set forth in the items of Article 2, paragraph (2) which are deemed to be Securities pursuant to the provisions of Article 2, paragraph (2) (excluding the following rights (hereinafter referred to as "Rights in a Securities Investment Business, etc." in Article 24, paragraph (1))):
  - (a) among the rights set forth in Article 2, paragraph (2), item (v), those specified by Cabinet Order as a right in Invested Business (meaning Invested Business as defined in Article 2, paragraph (2), item (v)) that is mainly conducted through investment in Securities;
  - (b) among the rights set forth in Article 2, paragraph (2), items (i) to (iv) inclusive, (vi), or (vii), those specified by Cabinet Order as being similar to the rights set forth in sub-item (a) above; and
  - (c) other rights specified by Cabinet Order.
- (iv) corporate bond certificates for which the government guarantees the redemption of the principal or the payment of interest; and
- (v) Securities specified by Cabinet Order other than those set forth in the

preceding items.

(Notification of Public Offering or Secondary Distribution)

Article 4 (1) It is not permitted for a person to conduct a Public Offering of Securities (including Specified Procedures Related to the Issuance of Securities During a Reorganization; the same applies hereinafter in this Chapter and the following Chapter, except in Article 13 and Article 15, paragraphs (2) to (6) inclusive) or a Secondary Distribution of Securities (excluding those falling under the category of General Solicitation Involving for Securities Acquired by a Qualified Institutional Investor as defined in the following paragraph or of General Solicitation Involving Securities Acquired by a Professional Investor as defined in paragraph (3), but including Specified Procedures Related to the Delivery of Securities During a Reorganization; hereinafter the same applies in this paragraph) unless the Issuer has filed a notification of the Public Offering or Secondary Distribution of Securities with the Prime Minister; provided, however, that this does not apply to a Public Offering or Secondary Distribution of Securities that falls under one of the following items:

- (i) a Public Offering or Secondary Distribution of Securities in a case specified by Cabinet Order as one in which the other parties thereto have already obtained or can easily obtain information about the particulars set forth in the items of paragraph (1) of the following Article for the relevant Securities;
- (ii) a Public Offering or Secondary Distribution of Securities for which the pertinent Procedures Related to the Issuance of Securities During a Reorganization or Procedures Related to the Delivery of Securities During a Reorganization fall under either of the following cases (excluding a Public Offering or Secondary Distribution as specified in the preceding item)
  - (a) cases not falling under a case in which disclosure has been made with regard to share certificates (including share option certificates and other Securities specified by Cabinet Order) whose issuer is the Reorganization Company; or
  - (b) a case in which disclosure has been made with regard to the Securities that will be newly issued in connection with the Procedures Related to the Issuance of Securities During a Reorganization, or a case in which disclosure has been made with regard to previously issued Securities subject to the Procedures Related to the Delivery of Securities During a Reorganization.
- (iii) a Secondary Distribution of Securities in a case in which disclosure has been made with regard to the Securities (excluding a Secondary Distribution provided for in the preceding two items);
- (iv) a Secondary Distribution of Securities that have already been issued in a foreign state or of Securities specified by Cabinet Order as being equivalent

- thereto (limited to those conducted by a Financial Services Provider, etc.), which satisfies the requirement that information on the trading price of the Securities in Japan can be easily obtained and any other requirements specified by Cabinet Order (excluding a Secondary Distribution provided for in the preceding three items); or
- (v) a Public Offering or Secondary Distribution of Securities with a total issue value or total distribution value of less than 100 million yen, which is specified by Cabinet Office Ordinance (excluding those specified in the preceding items).
- (2) It is not permitted for a person to issue a solicitation with a view to delivering existing securities (meaning an Offer to Sell, etc. or Procedures Related to the Delivery of Securities During a Reorganization; the same applies hereinafter) that involves Securities that have been involved in a solicitation with a view to issuing new securities (meaning the Solicitation of Offers to Acquire or the Procedures Related to the Issuance of Securities During a Reorganization; the same applies hereinafter) or a solicitation with a view to delivering existing securities falling under any of the following cases (in the case set forth in item (i), limited to the Securities acquired by qualified institutional investors that have been excluded from the large number of persons pursuant to Article 2, paragraph (3), item (i), and in the case set forth in item (iv), limited to the Securities acquired by qualified institutional investors that have been excluded from the large number of persons pursuant to paragraph (4), item (i) of that Article), and that involves a qualified institutional investor soliciting persons other than qualified institutional investors (such a solicitation is hereinafter referred to as a "General Solicitation Involving Securities Acquired by a Qualified Institutional Investor"), unless the Issuer of the Securities has filed a notification of the relevant General Solicitation Involving for Securities Acquired by the a Qualified Institutional Investor with the Prime Minister; provided, however, that this does not apply to a case in which disclosure has been made with regard to the Securities, or to a case in which the General Solicitation Involving for Securities Acquired by the Qualified Institutional Investor will be issued for a compelling reason specified by Cabinet Office Ordinance, or otherwise satisfies the requirements specified by Cabinet Office Ordinance:
- (i) the case set forth in Article 2, paragraph (3), item (ii), sub-item (a);
- (ii) the case set forth in Article 2, paragraph (3), item (ii), sub-item (c) (but only if it comes to no longer fall under the case set forth in item (i) of that paragraph due to the qualified institutional investors' being excluded from the large number of persons pursuant to that item);
- (iii) the case set forth in Article 2, paragraph (4), item (ii), sub-item (a);
- (iv) the case set forth in Article 2, paragraph (4), item (ii), sub-item (c) (but

- only if it comes to no longer fall under the case set forth in item (i) of that paragraph due to the qualified institutional investors' being excluded from the large number of persons pursuant to that item);
- (v) the case set forth in Article 2-2, paragraph (4), item (ii), sub-item (a); and
- (vi) the case set forth in Article 2-2, paragraph (5), item (ii), sub-item (a).
- (3) It is not permitted for a person to issue a solicitation with a view to delivering existing securities that involves Securities falling under any of the following items (excluding Securities falling under any of the items of Article 24, paragraph (1) or Securities specified by Cabinet Order as those which it is found are unlikely to be held by a large number of Professional Investors; hereinafter referred to as the "Securities for Professional Investors"), but that does not involve a Financial Services Provider, etc. being entrusted to solicit Professional Investors, etc. (with the exception of a solicitation issued to the State, the Bank of Japan, or qualified institutional investors, and also with the exception of solicitation specified by Cabinet Order; hereinafter referred to as a "General Solicitation Involving Securities Acquired by a Professional Investor"), unless the Issuer of Securities has filed a notification of the relevant General Solicitation Involving Securities Acquired by a Professional Investor with the Prime Minister; provided, however, that this does not apply in a case in which disclosure has been made with regard to the Securities for Professional Investors and in any other case that is specified by Cabinet Office Ordinance as one in which the non-filing of a notification for a General Solicitation Involving Securities Acquired by a Professional Investor does not damage the public interest or result in insufficient investor protection:
- (i) Securities for which the Solicitation of Offers to Acquire fell under the case specified in Article 2, paragraph (3), item (ii), sub-item (b) (hereinafter referred to as a "Exclusive Solicitation of Offers to Acquire Targeting Professional Investors");
- (ii) Securities for which the Offer to Sell, etc. was an exclusive Offer to Sell, etc. to Professional Investors;
- (iii) Securities issued by an Issuer of the Securities provided for in either of the preceding two items, which are specified by Cabinet Office Ordinance as being the same class of Securities as those provided for in either of the preceding two items; or
- (iv) Specified Listed Securities and other Securities specified by Cabinet Order as having equivalent distribution statuses thereto.
- (4) If a Public Offering or Secondary Distribution of Securities (including a General Solicitation Involving Securities Acquired by a Qualified Institutional Investor (excluding those falling under the category of a Secondary Distribution of Securities), a General Solicitation Involving Securities Acquired by a Professional Investor (excluding those falling under the category of a

Secondary Distribution of Securities), and Procedures Related to the Delivery of Securities During a Reorganization; hereinafter the same applies in this Chapter and the following Chapter, except in the following paragraph and paragraph (6) of this Article, Article 13, and Article 15, paragraphs (2) to (6) inclusive) will be made for the shareholders (including preferred equity investors provided for in the Act on Preferred Equity Investment) that have been stated or recorded in the shareholder register (including the preferred equity investor register provided for in the Act on Preferred Equity Investment) as of a certain date, the notification for the Public Offering or Secondary Distribution under the preceding three paragraphs must be made 25 days prior; provided, however, that this does not apply in the cases that are specified by Cabinet Office Ordinance in consideration of the issue price or distribution price of the Securities or other factors.

- (5) Materials that are used for a Public Offering or Secondary Distribution of Securities specified in paragraph (1), item (v), for a General Solicitation for Involving Securities Acquired by a Qualified Institutional Investor which is excluded from the application of the main clause of paragraph (2) pursuant to the proviso to that paragraph, or for a General Solicitation Involving Securities Acquired by a Professional Investor which is excluded from the application of the main clause of paragraph (3) pursuant to the proviso to that paragraph, which falls under the category of a Secondary Distribution of Securities, or which does not fall under the category of a Secondary Distribution of Securities and does not fall under a case in which disclosure has been made (hereinafter referred to as a "Specified Public Offering" in this paragraph and the following paragraph), and materials that are used in causing the Securities in a Specified Public Offering to be acquired or in selling such Securities, must indicate that the main clause of paragraph (1), the main clause of paragraph (2) or the main clause of paragraph (3) does not apply to said Specified Public Offering.
- (6) Whenever a Specified Public Offering or Secondary Distribution of Securities set forth in paragraph (1), item (iii) (hereinafter collectively referred to as a "Specified Public Offering, etc." in this paragraph) is conducted, the Issuer of the Securities in the Specified Public Offering, etc. shall submit a written notice of the Specified Public Offering, etc. to the Prime Minister pursuant to the provisions of Cabinet Office Ordinance, by the day preceding the day on which the Specified Public Offering, etc. begins; provided, however, that this does not apply to a Secondary Distribution of Securities as set forth in paragraph (4) whose total distribution value is less than 100 million yen in a case in which disclosure has been made, nor to a Secondary Distribution of Securities as set forth in paragraph (1), item (iii) conducted by a person other than the Issuer of said Securities or a person specified by Cabinet Office

Ordinance, nor to a Public Offering or Secondary Distribution of Securities as set forth in item (v) of that paragraph whose total issue value or total distribution value is less than the amount specified by Cabinet Office Ordinance.

- (7) As set forth in sub-items (a) and (b) of item (ii) and item (iii) of paragraph (1), paragraph (2), paragraph (3) and the preceding two paragraphs, a case in which disclosure has been made means one of the following cases:
- (i) a notification under paragraph (1) is in effect for a Public Offering or Secondary Distribution which has already been conducted with regard to the relevant Securities (excluding one that falls under the category of a General Solicitation Involving Securities Acquired by a Qualified Institutional Investor or a General Solicitation Involving Securities Acquired by a Professional Investor); a notification under paragraph (2) is in effect for a General Solicitation Involving Securities Acquired by a Qualified Institutional Investor which has already been conducted with regard to said Securities; or a notification under paragraph (3) is in effect for a General Solicitation Involving Securities Acquired by a Professional Investor which has already been conducted with regard to said Securities (unless the proviso to Article 24, paragraph (1) is applicable (including as applied *mutatis mutandis* pursuant to Article 24, paragraph (5) and as these provisions apply *mutatis mutandis* pursuant to Article 27) to the Issuer of the Securities); or
  - (ii) cases specified by Cabinet Office Ordinance as being equivalent to the cases provided for in the preceding item.

(Submission of Registration Statements)

Article 5 (1) If an Issuer seeking to file a notification for a Public Offering or Secondary Distribution of Securities under paragraphs (1) to (3) inclusive of the preceding Article (excluding a Public Offering or Secondary Distribution of Securities for regulated Securities (meaning Securities specified by Cabinet Order as those for which the information materially influencing investors' investment decisions is information on asset management or other similar business that the Issuer conducts; hereinafter the same applies in this paragraph and paragraph (5) of this Article and Article 24); hereinafter the same applies in this paragraph and the following paragraph) is a company (including a foreign company; the same applies hereinafter, except in Article 50-2, paragraph (9), Article 66-40, paragraph (5) and Article 156-3, paragraph (2), item (iii)) (including if the company will be incorporated by the issuance of said Securities (excluding regulated Securities; hereinafter the same applies in this paragraph to paragraph (4) inclusive)), it must submit a statement to the Prime Minister in which it states the following particulars, pursuant to the provisions of Cabinet Office Ordinance; provided, however, that, if it is

necessary to conduct the Public Offering of Securities before deciding their issue price or in other cases specified by Cabinet Office Ordinance, the Issuer may submit the statement without giving the issue price or other particulars in item (i) that are specified by Cabinet Office Ordinance:

- (i) the particulars of the Public Offering or Secondary Distribution; and
- (ii) the trade name of the company, the financial condition of the corporate group (meaning the group consisting of the relevant company and persons (limited to companies and other entities specified by Cabinet Office Ordinance) satisfying the requirements that Cabinet Office Ordinance specifies, as other companies in which the relevant company holds majority voting rights or as persons that are otherwise closely related to the relevant company; the same applies hereinafter) to which the company belongs and the company's own financial condition and other material particulars about the company's business, and other particulars that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors.

(2) In its statement, a person not falling under any of the following items which seeks to submit a statement set forth in the preceding paragraph for a Public Offering or a Secondary Distribution of Securities to which the main clause of paragraph (1), the main clause of paragraph (2), or the main clause of paragraph (3) of the preceding Article applies, the total issue value or the total distribution value of which is less than 500 million yen and which is specified by Cabinet Office Ordinance for this purpose (such a Public Offering or Secondary Distribution of Securities is referred to as "Low Value Public Offering, etc." in Article 24, paragraph (2)), may state the particulars set forth in Article 24, paragraph (2), item (ii) which is specified by Cabinet Office Ordinance as being pertinent with regard to the relevant company, instead of stating the particulars set forth in that item:

- (i) an Issuer of Securities that fall under any of the categories specified in Article 24, paragraph (1), item (i), (ii) or (iv);
- (ii) a person that submits or is required to submit a statement under the preceding paragraph in which it states the particulars set forth in item (ii) of the preceding paragraph for a Public Offering or Secondary Distribution of Securities to which the main clause of paragraph (1), the main clause of paragraph (2), or the main clause of paragraph (3) of the preceding Article has been applied (excluding the persons specified in the preceding item); or
- (iii) a person that has already submitted an Annual Report (meaning a report as set forth in Article 24, paragraph (1); hereinafter the same applies in this Article) in which it states the particulars set forth in the main clause of Article 24, paragraph (1), a Quarterly Report as set forth in Article 24-4-7, paragraph (1) or (2) (hereinafter referred to as a "Quarterly Report" in this

- Article) which it states the particulars set forth in Article 24-4-7, paragraph (1), or a Semiannual Report (meaning a report as set forth in Article 24-5, paragraph (1); hereinafter the same applies in this Article and Article 24, paragraph (2)) which it states the particulars set forth in Article 24-5, paragraph (1) (excluding a person provided for in the preceding two items).
- (3) If a person that has continuously filed Annual Reports as specified by Cabinet Office Ordinance during the period specified by Cabinet Office Ordinance seeks to file a notification under paragraphs (1) to (3) inclusive of the preceding Article, instead of stating the particulars set forth in paragraph (1), item (ii), such person, pursuant to the provisions of Cabinet Office Ordinance, may interfile a copy of its latest Annual Report and the accompanying documents, a copy of any Quarterly Report or Semiannual Report submitted after the submission of the Annual Report, and a copy of any amended report connected with the foregoing reports in the statement set forth in paragraph (1), and enter in that statement any facts specified by Cabinet Office Ordinance which come into play after the submission of the Annual Report.
- (4) If a person that satisfies all of the requirements set forth below seeks to file a notification under paragraphs (1) to (3) inclusive of the preceding Article, and the person enters in the statement set forth in paragraph (1), pursuant to the provisions of Cabinet Office Ordinance, that reference should be made to the latest Annual Report and accompanying documents, the Quarterly Report, Semiannual Report, or Ad Hoc Report (meaning a report as set forth in Article 24-5, paragraph (4)) submitted after the submission of the Annual Report, or any amended report connected with them (hereinafter collectively referred to as "Reference Documents"), the person is deemed to have stated the particulars set forth in item (ii) of paragraph (1) in the statement:
- (i) the person must have continuously filed Annual Reports as specified by Cabinet Office Ordinance during the period specified by Cabinet Office Ordinance; and
  - (ii) the person must satisfy the criteria specified by Cabinet Office Ordinance as a person with regard to which information about the particulars set forth in paragraph (1), item (ii) is widely available to the public, with regard to the status of transactions on Financial Instruments Exchange Markets in issued Securities of which the person is the issuer.
- (5) The provisions of paragraph (1) to the preceding paragraph inclusive apply mutatis mutandis if the Securities for which the notification set forth in paragraph (1) is filed are regulated Securities. In this case, in paragraph (1), the phrase "excluding a Public Offering or Secondary Distribution of Securities" is deemed to be replaced with "limited to a Public Offering or Secondary Distribution of Securities" and the phrase "said Securities (excluding regulated Securities; hereinafter the same applies in this paragraph

to paragraph (4) inclusive)" is deemed to be replaced with "said Securities"; in item (ii) of that paragraph, the phrase "trade name of the company, the financial condition of the corporate group (meaning the group consisting of the relevant company and persons (limited to companies and other entities specified by Cabinet Office Ordinance) satisfying the requirements that Cabinet Office Ordinance specifies, as other companies in which the relevant company holds majority voting rights or as persons that are otherwise closely related to the relevant company; the same applies hereinafter) to which the company belongs and the company's own financial condition and other material particulars of the company's business" is deemed to be replaced with "financial condition of its asset management or other similar business conducted by the company and other material particulars of the company's assets"; in paragraph (2), the phrase "a Public Offering or Secondary Distribution of Securities" is deemed to be replaced with "a Public Offering or Secondary Distribution of regulated Securities"; in item (i) of that paragraph, the phrase "Securities falling under any of the categories" is deemed to be replaced with "regulated Securities falling under any of the categories of Securities"; in item (ii) of that paragraph, the phrase "Public Offering or Secondary Distribution of Securities" is deemed to be replaced with "Public Offering or Secondary Distribution of regulated Securities"; in item (iii) of that paragraph, the phrase "the main clause of Article 24, paragraph (1)" is deemed to be replaced with "the main clause of Article 24, paragraph (1) as applied mutatis mutandis pursuant to Article 24, paragraph (5)", the phrase "Article 24-4-7, paragraph (1) or (2)" is deemed to be replaced with "Article 24-4-7, paragraph (1) or (2) as applied mutatis mutandis pursuant to Article 24-4-7, paragraph (3)", the phrase "the particulars set forth in Article 24-4-7, paragraph (1)" is deemed to be replaced with "the particulars set forth in Article 24-4-7, paragraph (1) as applied mutatis mutandis pursuant to Article 24-4-7, paragraph (3)", and the phrase "the particulars set forth in Article 24-5, paragraph (1)" is deemed to be replaced with "the particulars set forth in Article 24-5, paragraph (1) as applied mutatis mutandis pursuant to Article 24-5, paragraph (3)"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(6) The articles of incorporation or other documents that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors must accompany the statement set forth in paragraph (1).

(Submission of Statements and Other Documents to a Financial Instruments Exchange, etc.)

Article 6 An Issuer of the Securities set forth in the following items shall submit a copy of the statement and other documents set forth in paragraph (1) and

paragraph (6) of the preceding Article to the person specified in the relevant item without delay after filing the notification under Article 4, paragraphs (1) to (3) inclusive:

- (i) Securities listed on a Financial Instruments Exchange: said Financial Instruments Exchange; and
- (ii) Securities specified by Cabinet Order as having equivalent distribution statuses to the Securities referred to in the preceding item: the Authorized Financial Instruments Business Association specified by Cabinet Order.

(Voluntary Submission of Amended Statements)

Article 7 If, on or after the day on which a notification under Article 4, paragraphs (1) to (3) inclusive is filed and before the day on which that notification comes into effect, a material particular that is required to be stated in a statement or other document under Article 5, paragraph (1) or paragraph (6) changes or any other circumstance arises that is specified by Cabinet Office Ordinance as necessitating that the content of such documents be amended in the public interest or for the protection of investors, the person filing the notification (or, if it is after a company is incorporated through the issuance of the Securities for which the notification was filed, the company; the same applies hereinafter) must submit an amended statement to the Prime Minister. The same also applies in the absence of such a reason, if the person filing the notification finds there to be something in the statement or other document that necessitates an amendment.

(Effective Date of Notifications)

Article 8 (1) A notification under Article 4, paragraphs (1) to (3) inclusive comes into effect on the day on which 15 days have elapsed since the day on which the Prime Minister accepted the statement under Article 5, paragraph (1) (or, if the particulars referred to in the proviso to Article 5, paragraph (1) are not stated in the statement, the amended statement under the preceding Article which is connected with said particulars; the same applies in the following paragraph).

- (2) With regard to the application of the preceding paragraph if an amended statement under the preceding Article is submitted within the period set forth in the preceding paragraph, the statement set forth in Article 5, paragraph (1) is deemed to be accepted by the Prime Minister on the day that the Prime Minister accepts the amended statement.
- (3) If the Prime Minister finds that the statement or other documents under Article 5, paragraph (1) or paragraph (6) or the preceding Article are easily understandable to the public or finds that information about the particulars set forth in Article 5, paragraph (1), item (ii) with regard to the person that

submitted the statement and other documents is already widely available to the public, the Prime Minister may designate a period for the person which is shorter than that referred to in paragraph (1), or may notify the person that the notification under Article 4, paragraphs (1) to (3) inclusive will become effective immediately or on the day after the day on which the Prime Minister accepts the statement referred to in paragraph (1). In such a case, a notification under Article 4, paragraphs (1) to (3) inclusive becomes effective on the day on which the shorter period has elapsed if a shorter period has been designated, or immediately or on the following day if the person has been so notified.

(4) The provisions of paragraph (2) apply mutatis mutandis if a shorter period is designated as under the preceding paragraph.

(Order to Submit an Amended Statement Due to a Formal Deficiency, etc.)

Article 9 (1) If the Prime Minister finds a formal deficiency in a statement or other document under Article 5, paragraph (1) or paragraph (6) or Article 7, or finds such statement or other document to insufficiently state a material particular that is required to be stated, the Prime Minister may order the person that submitted it to submit an amended statement. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act (Act No. 88 of 1993), the Prime Minister must conduct a hearing.

(2) Notwithstanding the provisions of the preceding Article, if the disposition under the preceding paragraph has been reached, the notification under Article 4, paragraphs (1) to (3) inclusive becomes effective on the day on which the period designated by the Prime Minister has elapsed.

(3) The provisions of paragraphs (2) to (4) inclusive of the preceding Article apply mutatis mutandis in the case referred to in the preceding paragraph.

(4) The disposition under paragraph (1) may not be reached on or after the day on which the notification under Article 4, paragraphs (1) to (3) inclusive becomes effective; provided, however, that this does not apply to any amended statement submitted pursuant to Article 7 on or after that day.

(Order to Submit an Amended Statement and Order Suspending the Validity of a Notification Due to a False Statement, etc.)

Article 10 (1) If the Prime Minister discovers that a Registration Statement contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading, the Prime Minister, at any time, may order the person submitting the Registration Statement to submit an amended statement, and if the Prime Minister finds it

to be necessary, the Prime Minister may order the suspension of the validity of a notification under Article 4, paragraphs (1) to (3) inclusive. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.

- (2) The provisions of paragraphs (2) and (3) of the preceding Article apply *mutatis mutandis* if an order to submit an amended statement under the preceding paragraph is issued before the notification under Article 4, paragraphs (1) to (3) inclusive comes into effect.
- (3) If an order for suspension under paragraph (1) is issued and an amended statement under that paragraph is submitted, and if the Prime Minister finds the amended statement to be appropriate, the Prime Minister is to cancel the order for suspension under that paragraph.

(Suspension of the Validity of Notifications Made Within One Year After the Submission of a Registration Statement Containing a False Statement)

- Article 11 (1) If a Registration Statement contains a false statement about a material particular and the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may issue an order against the person submitting the Registration Statement with regard to said Registration Statement or with regard to any other statement as set forth in Article 5, paragraph (1), Shelf Registration Statement as set forth in Article 23-3, paragraph (1), or Shelf Registration Supplements as set forth in Article 23-8, paragraph (1) which the person submitting said Registration Statement submits within one year of the day on which the person submitted said Registration Statement, ordering the suspension of the validity of the notification or of the Shelf Registration under the relevant Shelf Registration Statement or Shelf Registration Supplements, or may extend the period stipulated in Article 8, paragraph (1) (including as applied *mutatis mutandis* pursuant to Article 23-5, paragraph (1)), for the period that the Prime Minister considers appropriate in the public interest or for the protection of investors. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.
- (2) If a disposition under the preceding paragraph is reached and the Prime Minister finds that the content of an amended statement submitted pursuant to Article 7 or paragraph (1) of the preceding Article in relation to the false statement referred to in the preceding paragraph is appropriate, and that allowing the acquisition or sale of Securities issued by the person that submitted the Registration Statement through a Public Offering or Secondary Distribution will not compromise the public interest or the protection of

investors, the Prime Minister may cancel the disposition under the preceding paragraph.

(Submission of a Copy of an Amended Statement to a Financial Instruments Exchange, etc.)

Article 12 The provisions of Article 6 apply mutatis mutandis when an amended statement is submitted pursuant to Article 7, Article 9, paragraph (1) or Article 10, paragraph (1).

(Preparation of the Prospectus and Prohibition against the Use of a Prospectus Containing a False Statement)

Article 13 (1) The Issuer of Securities whose Public Offering or Secondary Distribution (including General Solicitation Involving Securities Acquired by a Qualified Institutional Investor (excluding anything falling under the category of a Secondary Distribution of Securities) and also including General Solicitation Involving Securities Acquired by a Professional Investor excluding anything falling under the category of a Secondary Distribution of Securities); hereinafter the same applies in this Article and paragraphs (2) to (4) inclusive and paragraph (6) of Article 15) is subject to the main clause of Article 4, paragraph (1), the main clause of Article 4, paragraph (2) or the main clause of Article 4, paragraph (3), shall prepare a Prospectus for such Public Offering or Secondary Distribution. The same applies to an Issuer of Securities whose Secondary Distribution (excluding one with a total distribution value of less than 100 million yen or one that falls under the categories specified by Cabinet Office Ordinance) falls under a Case In Which Disclosure Has Been Made (meaning a Case In Which Disclosure Has Been Made as referred to in Article 4, paragraph (7); hereinafter the same applies in this Chapter) (such Securities are hereinafter referred to as "Securities for Which Disclosure Has Already Been Made" in this Chapter).

(2) For the category of cases set forth in one of the following items, the details of the particulars that are specified in that item must be stated in the Prospectus referred to in the preceding paragraph; provided, however, that if a statement under the main clause of Article 5, paragraph (1) has been submitted pursuant to the proviso to Article 5, paragraph (1), without the issue price or any other particular specified by Cabinet Office Ordinance being stated among those in item (i) of that paragraph (hereinafter referred to as the "Issue Price, etc." in this paragraph and Article 15, paragraph (5)), the Prospectus in the case set forth in item (i), below, is not required to state the Issue Price, etc.:

(i) if the Prospectus must be delivered pursuant to the main clause of Article 15, paragraph (2): for a category of Securities specified in the following sub-item (a) or (b), the particulars set forth in the relevant sub-item:

- (a) Securities whose Public Offering or Secondary Distribution is subject to the main clause of Article 4, paragraph (1), the main clause of Article 4, paragraph (2), or the main clause of Article 4, paragraph (3): the following particulars:
    - 1. among those set forth in the items of Article 5, paragraph (1), the particulars specified by Cabinet Office Ordinance as having a very material influence on investors' investment decisions; and
    - 2. particulars specified by Cabinet Office Ordinance other than those set forth in the items of Article 5, paragraph (1).
  - (b) Securities for Which Disclosure Has Already Been Made: the following particulars:
    - 1. the particulars set forth in sub-item (a)1., above; and
    - 2. particulars specified by Cabinet Office Ordinance other than those set forth in the items of Article 5, paragraph (1).
  - (ii) if the Prospectus must be delivered pursuant to Article 15, paragraph (3): for a category of Securities specified in the following sub-item (a) or (b), the particulars specified in the relevant sub-item:
    - (a) Securities whose Public Offering or Secondary Distribution is subject to the main clause of Article 4, paragraph (1), the main clause of Article 4, paragraph (2), or the main clause of Article 4, paragraph (3): the following particulars:
      - 1. among those set forth in the items of Article 5, paragraph (1), the particulars specified by Cabinet Office Ordinance as having a material influence on investors' investment decisions; and
      - 2. particulars specified by Cabinet Office Ordinance other than those set forth in the items of Article 5, paragraph (1).
    - (b) Securities for Which Disclosure Has Already Been Made: the following particulars:
      - 1. the particulars set forth in sub-item (a)1., above; and
      - 2. particulars specified by Cabinet Office Ordinance other than those set forth in the items of Article 5, paragraph (1).
  - (iii) if the Prospectus must be delivered pursuant to the main clause of Article 15, paragraph (4): the particulars stated in the amended statement under Article 7.
- (3) If, in a Prospectus under item (i) or (ii) of the preceding paragraph that a person submitting a notification to which the provisions of Article 5, paragraph (4) apply (including as applied mutatis mutandis pursuant to paragraph (5) of that Article; the same shall apply hereinafter) is required to prepare or that a person satisfying all of the requirements specified in the items of Article 5, paragraph (4) is required to prepare in connection with Securities for Which Disclosure Has Already Been Made, the relevant person has stated that

reference should be made to the Reference Documents, said person is deemed to have stated the particulars set forth in Article 5, paragraph (1), item (ii).

- (4) It is prohibited for any person to use a Prospectus referred to in paragraph (1) that contains a false statement or omits a statement as to a detail that is required to be stated, for a Public Offering or Secondary Distribution of Securities that is subject to the main clause of Article 4, paragraph (1), the main clause of Article 4, paragraph (2), or the main clause of Article 4, paragraph (3), or for a Public Offering or Secondary Distribution of Securities for Which Disclosure Has Already Been Made.
- (5) It is prohibited for any person to make a false or misleading representation in documents, drawings, sounds, or other materials (this includes anything that shows the contents of information that has been recorded in electronic or magnetic records (meaning records used in computer data processing which are created in electronic form, magnetic form, or any form that is otherwise impossible to perceive through the human senses alone; the same applies hereinafter), if such materials have been prepared as electronic or magnetic records; the same applies in Article 17) other than the Prospectus referred to in paragraph (1), which are used for the purpose of a Public Offering or Secondary Distribution of Securities that is subject to the main clause of Article 4, paragraph (1), the main clause of Article 4, paragraph (2), or the main clause of Article 4, paragraph (3) or for a Public Offering or Secondary Distribution Securities for Which Disclosure Has Already Been Made.

#### Article 14 Deleted

(Prohibition of Transactions in Securities Prior to a Notification Coming into Effect, and Delivery of Prospectus)

- Article 15 (1) It is prohibited for an Issuer, person that conducts a Secondary Distribution of Securities, Underwriter (including a person that, with regard to a General Solicitation Involving Securities Acquired by a Qualified Institutional Investor (except in a Case In Which Disclosure Has Been Made with regard to the Securities for which the general solicitation is issued) or with regard to a General Solicitation Involving Securities Acquired by a Professional Investor (except in a Case In Which Disclosure Has Been Made with regard to the Securities for which the general solicitation is issued), conducts any of the acts specified in the items of Article 2, paragraph (6); hereinafter the same applies in this Chapter), Financial Services Provider, registered financial institution, or Financial Instruments Intermediary to cause Securities to be acquired whose Public Offering or Secondary Distribution is subject to the main clause of Article 4, paragraph (1), the main clause of Article 4, paragraph (2), or the main clause of Article 4, paragraph (3),

nor may it sell such Securities through a Public Offering or Secondary Distribution, unless the notification under the main clause of Article 4, paragraph (1), the main clause of Article 4, paragraph (2), or the main clause of Article 4, paragraph (3) has become effective.

- (2) When an Issuer, person that conducts a Secondary Distribution of Securities, Underwriter, Financial Services Provider, registered financial institution, or Financial Instruments Intermediary causes Securities referred to in the preceding paragraph, or Securities for Which Disclosure Has Already Been Made, to be acquired through a Public Offering or Secondary Distribution, or when it sells such Securities through a Public Offering or Secondary Distribution, it shall deliver a Prospectus that states the particulars specified in Article 13, paragraph (2), item (i) to the other person in advance or at the same time; provided, however, that this does not apply in the following cases:
- (i) the Securities are acquired by or sold to a qualified institutional investor (unless the qualified institutional investor requests to be delivered the Prospectus by the time it acquires or is sold the Securities through the Public Offering or Secondary Distribution); or
  - (ii) the Securities are acquired by or sold to a person set forth in the following, and such person has consented not to be delivered the Prospectus (unless the consenting person requests to be delivered the Prospectus by the time it acquires or is sold the Securities through the Public Offering or Secondary Distribution):
    - (a) a person that already holds the same issue of Securities as the relevant Securities; or
    - (b) a person living with the consenting person has already received the Prospectus or is reliably expected to receive the Prospectus.
- (3) When an Issuer, person that conducts a Secondary Distribution of Securities, Underwriter, Financial Services Provider, registered financial institution, or Financial Instruments Intermediary causes Securities referred to in paragraph (1) (limited to those specified by Cabinet Order; hereinafter the same applies in this paragraph), or Securities for Which Disclosure Has Already Been Made, to be acquired through a Public Offering or Secondary Distribution, or when it sells such Securities through a Public Offering or Secondary Distribution, if the counterparty requests to be delivered a Prospectus that states the particulars specified in Article 13, paragraph (2), item (ii) by the time the counterparty acquires or is sold the Securities through the Public Offering or Secondary Distribution, the Issuer, person that conducts the Secondary Distribution of Securities, Underwriter, Financial Services Provider, registered financial institution, or Financial Instruments Intermediary shall deliver said Prospectus immediately.
- (4) When an Issuer, person that conducts a Secondary Distribution of Securities,

Underwriter, Financial Services Provider, registered financial institution, or Financial Instruments Intermediary causes Securities referred to in paragraph (1) or Securities for Which Disclosure Has Already Been Made to be acquired through a Public Offering or Secondary Distribution, or when it sells such Securities through a Public Offering or Secondary Distribution, if an amended statement under Article 7 has been submitted in connection with the statement referred to in the main clause of Article 5, paragraph (1) for the relevant Securities, the Issuer, person that conducts the Secondary Distribution of Securities, Underwriter, Financial Services Provider registered financial institution, or Financial Instruments Intermediary shall deliver a Prospectus that states the particulars specified in Article 13, paragraph (2), item (iii) in advance, or at the same time; provided, however, that this does not apply in the cases specified in the items of paragraph (2).

(5) The main clause of the preceding paragraph does not apply if an indication that the Issue Price, etc. will be announced separately and the means of its announcement (limited to means specified by Cabinet Office Ordinance) are stated in a Prospectus referred to under paragraph (2) which has been delivered without the Issue Price, etc. being stated pursuant to the proviso to Article 13, paragraph (2), and if the Issue Price, etc. has actually been announced by said means.

(6) The provisions of paragraph (2) to the preceding paragraph apply mutatis mutandis if the remainder of the Securities referred to in paragraph (1) that are not acquired by any person through a Public Offering or Secondary Distribution (excluding Securities that fall under any of the categories specified in Article 24, paragraph (1), items (i) and (ii)) is caused to be acquired or is sold other than through a Public Offering or Secondary Distribution within three months (excluding, if an order for suspension under Article 10, paragraph (1) or Article 11, paragraph (1) has been issued, the period from the day on which the order for suspension was issued until the day on which the order was canceled) from the day on which the notification under Article 4, paragraphs (1) to (3) inclusive for the Public Offering or Secondary Distribution came into effect.

(Compensatory Liability of Violators)

Article 16 A person violates the preceding Article in causing Securities to be acquired is liable to compensate the person that acquires the Securities for damage arising from the violation.

(Compensatory Liability of a Person Using a Prospectus Containing a False Statement)

Article 17 A person that, in a Public Offering or Secondary Distribution of

Securities that is subject to the main clause of Article 4, paragraph (1), the main clause of Article 4, paragraph (2) or the main clause of Article 4, paragraph (3) or of Securities for Which Disclosure Has Already Been Made, causes Securities to be acquired while using a Prospectus referred to in Article 13, paragraph (1) that contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading, or while using materials that contain a false or misleading representation about a material particular, or that omit a representation of material fact that is necessary to prevent them from being misleading, is liable to compensate for damage sustained by a person that acquires the Securities without knowing that the statement is false or has been omitted, that the representation is false or misleading, or that a representation has been omitted; provided, however, that this does not apply if the person that would be liable to compensate proves it did not know, and in the exercise of reasonable care could not have known, that the statement was false or had been omitted, or that the representation was false or misleading.

(Compensatory Liability of the Person Submitting a Registration Statement Containing a False Statement)

Article 18 (1) If a Registration Statement contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading, the person that submitted the Registration Statement is liable to compensate for damage sustained by a person that acquires the Securities through the Public Offering or Secondary Distribution; provided, however, that this does not apply if the person that acquires the Securities knows that the statement is false or has been omitted at the time the person offers to acquire the Securities.

(2) The preceding paragraph applies mutatis mutandis if a Prospectus referred to in Article 13, paragraph (1) contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading. In this case, in the preceding paragraph, the phrase "the person that submitted the Registration Statement" is deemed to be replaced with "the Issuer that prepared the Prospectus" and the phrase "through the Public Offering or Secondary Distribution" is deemed to be replaced with "through the Public Offering or Secondary Distribution after receiving the Prospectus."

(Amount of Compensatory Liability Person Submitting a Registration

Statement That Contains a False Statement, etc.)

Article 19 (1) The amount of compensation for which a person is liable pursuant to the preceding Article is the amount calculated by deducting the amount specified in each of the following items from the amount that the claimant paid to acquire the Securities:

- (i) the market value of the Securities at the time the claimant claims damages pursuant to the preceding Article (or, if they have no market value, their estimated disposal value at such time); or
- (ii) the disposal value of the Securities, if they were disposed of before the time referred to in the preceding item.

(2) If the person that would be liable to compensate pursuant to the preceding Article proves that the whole or part of the damage sustained by the claimant is due to circumstances other than the decline in the value of the Securities that would have arisen from the Registration Statement or the Prospectus containing a false statement about a material particular, omitting a statement as to a material particular that is required to be stated, or omitting a statement of material fact that is necessary to prevent it from being, the person is not liable for the whole or such part of the compensation.

(Prescription of the Right to Claim Compensation from the Person Submitting a Registration Statement That Contains a False Statement, etc.)

Article 20 A claim for compensation under Article 18 extinguishes if compensation is not claimed within three years of when the claimant comes to know, or in exercise of reasonable care could have come to know, that the Registration Statement or the Prospectus includes a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading. The same applies if compensation is not claimed within seven years (excluding, if an order for suspension under Article 10, paragraph (1) or Article 11, paragraph (1) has been issued, the period from the day on which the order for suspension is issued to the day on which the order is canceled) of the time that the notification under Article 4, paragraphs (1) to (3) inclusive for the relevant Public Offering or Secondary Distribution of the Securities comes into effect or the Prospectus is delivered.

(Compensatory Liability of the Officers, etc. of a Company Submitting a Statement That Contains a False Statement)

Article 21 (1) If a Registration Statement contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading, the following persons are liable to

compensate a person that acquires the relevant Securities through a Public Offering or Secondary Distribution, for damage arising from the statement being false or having been omitted; provided, however, that this does not apply if the person that acquires the Securities knows that the statement is false or has been omitted at the time the person offers to acquire the Securities:

- (i) a person that, at the time of submission of the Registration Statement, is an officer (meaning a director, accounting advisor, company auditor, executive officer, or a person equivalent thereto; the same applies hereinafter, except in Article 163 to Article 167 inclusive) of the company that submitted the Registration Statement, or an incorporator of said company (limited to cases in which the Registration Statement was submitted before the incorporation of the company);
  - (ii) the holder of the Securities subject to the Secondary Distribution (or, if the holder had acquired the Securities from their previous holder by entering into a contract specifying that the Securities would be sold through a Secondary Distribution, the previous holder that is the other party to the contract);
  - (iii) a certified public accountant or the auditing firm that, in the audit certification provided for in Article 193-2, paragraph (1) in connection with the Registration Statement, certifies a statement in the documents under the audit certification which is false or has been omitted, as not being false or as not having been omitted; and
  - (iv) the Financial Services Provider or registered financial institution that concludes the Original Underwriting Contract with the Issuer of the Securities subject to the Public Offering or with either person specified in item (ii).
- (2) In the case referred to in the preceding paragraph, a person set forth in one of the following items is not liable for the compensation set forth in that paragraph, if said person proves the particular set forth in the relevant item:
- (i) the person specified in item (i) or (ii) of the preceding paragraph: it did not know, and in the exercise of reasonable care could not have known, that the statement was false or had been omitted;
  - (ii) a person or firm specified in item (iii) of the preceding paragraph: it did not intentionally or negligently provide such inappropriate certification; and
  - (iii) the person or firm specified in item (iv) of the preceding paragraph: it did not know, and, with respect to parts other than the part involving documents related to financial accounting provided for in Article 193-2, paragraph (1), in the exercise of reasonable care it could not have known, that the statement was false or had been omitted.
- (3) The provisions of items (i) and (ii) of paragraph (1) and item (i) of the preceding paragraph apply mutatis mutandis if a Prospectus referred to in

Article 13, paragraph (1) contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading. In this case, in paragraph (1), the phrase "through the relevant Public Offering or Secondary Distribution" is deemed to be replaced with "through the relevant Public Offering or Secondary Distribution after receipt of the Prospectus", the phrase "the company that submitted the Registration Statement" is deemed to be replaced with "the company that prepared the Prospectus", the phrase "at the time of submission" is deemed to be replaced with "at the time of preparation", and the phrase "was submitted" is deemed to be replaced with "was prepared".

(4) The term "Original Underwriting Contract" as used in paragraph (1), item (iv) means either of the following contracts as concluded for a Public Offering or Secondary Distribution of Securities:

- (i) a contract stipulating that the Underwriter will acquire all or part of the relevant Securities from the Issuer or holder (excluding a Financial Services Provider or registered financial institution; the same applies in the following item), with the aim of having other persons acquire them; or
- (ii) a contract stipulating that if no other person acquires all or part of the relevant Securities, the Underwriter will acquire those that remain from the Issuer or holder.

(Compensatory Liability of a Person Submitting a Document That Contains a False Statement, etc.)

Article 21-2 (1) If a document set forth in one of the items of Article 25, paragraph (1) (excluding items (v) and (ix)) (hereinafter referred to as a "Document" in this Article) contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading, the person submitting the Document is liable to compensate a person that, during the period the Document is being made available for public inspection as required by Article 25, paragraph (1), acquires Securities issued by the person submitting the Document (excluding a document set forth in Article 25, paragraph (1), item (xii)) or by a person whose Parent Company, etc. (meaning a Parent Company, etc. as defined by Article 24-7, paragraph (1)) is the person submitting the Document (limited to a document set forth in Article 25, paragraph (1), item (xii)) other than through a Public Offering or Secondary Distribution, for damage arising from the statement being false or having been omitted (hereinafter collectively referred to as being a "False Statement, etc." in this Article), to an extent not exceeding the amount calculated in accordance with the rule provided in Article 19,

paragraph (1); provided, however, that this does not apply if the person that acquires the Securities knows of the False Statement, etc. at the time of the acquisition.

- (2) In the case referred to in the main clause of the preceding paragraph, if the fact that a false statement, etc. in the relevant Document is contained is disclosed, a person that has acquired the relevant Securities within the one year prior to the day of the disclosure of the existence of the false statement, etc. (hereinafter referred to as the "Disclosure Date" in this paragraph) and that continues to hold the Securities on the Disclosure Date, may assert the amount calculated by deducting the average market value (or, if no market value exists, the estimated disposal value; hereinafter the same applies in this paragraph) during the one month after the Disclosure Date from the average market value during one month prior to the Disclosure Date, to be the amount of damage arising from the Document's False Statement, etc.
- (3) The term "disclosure of the existence of a false statement, etc." as used in the preceding paragraph means that the person submitting the Document or a person that has statutory authority over the person submitting the Document has taken measures to put the material particular that is required to be stated and that the Document's false statement, etc. concerns or the material fact that is necessary to prevent the Document from being misleading in connection with the same, into a form that allows for a large number of persons to learn of it through public inspection provided in Article 25, paragraph (1) or through other means.
- (4) In the case referred to in paragraph (2), if the person that would be liable to compensate proves that the whole or part of the damage sustained by the claimant was due to circumstances other than the decline in the value of the Securities that could have arisen from the Document's false statement, etc., the person is not liable for the whole or such part of the compensation.
- (5) In a case referred to in paragraph (2) other than one referred to in the preceding paragraph, if the court finds that the whole or part of the damage sustained by the claimant was due to circumstances other than the decline in the value of the Securities that could have arisen from the Document's false statement, etc., but that it is extremely difficult to prove the amount of damage arising from such other circumstances due to the nature thereof, based on the entire import of oral arguments and the results of an examination of evidence, the court may determine an appropriate amount as the amount of damage for which the relevant person is not liable to compensate.

(Prescription of the Right to Claim Compensation from a Person Submitting a Document That Contains a False Statement, etc.)

Article 21-3 The provisions of Article 20 apply mutatis mutandis to a claim for

compensation under the preceding Article. In this case, in Article 20, the phrase "Article 18" is deemed to be replaced with "Article 21-2", the phrase "the Registration Statement or the Prospectus" is deemed to be replaced with "a document set forth in one of the items of Article 25, paragraph (1) (excluding items (v) and (ix))", the phrase "three years" is deemed to be replaced with "two years", and the phrase "within seven years (excluding, if an order for suspension under Article 10, paragraph (1) or Article 11, paragraph (1) has been issued, the period from the day on which the order for suspension is issued to the day on which the order is canceled) of the time that the notification under Article 4, paragraphs (1) to (3) inclusive for the relevant Public Offering or Secondary Distribution of the Securities comes into effect or the Prospectus is delivered" is deemed to be replaced with "within five years of the time that the document is submitted".

(Compensatory Liability of the Officers, etc. of a Company Submitting a Statement That Contains a False Statement, etc.)

Article 22 (1) If a Registration Statement contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading, persons set forth in Article 21, paragraph (1), items (i) and (iii) are liable to compensate a person that, without knowing that the statement is false or has been omitted, acquires Securities issued by the person submitting the Registration Statement other than through a Public Offering or Secondary Distribution, for damage arising from the statement being false or having been omitted.

(2) The provisions of Article 21, paragraph (2), items (i) and (ii) apply mutatis mutandis to a person that would be liable for the compensation set forth in the preceding paragraph.

(Prohibition on Presuming the Veracity of a Registration Statement)

Article 23 (1) No person may deem, based on a notification under Article 4, paragraphs (1) to (3) inclusive for a Public Offering or Secondary Distribution of Securities having been made and having come into effect, nor based on the an order for suspension under Article 10, paragraph (1) or Article 11, paragraph (1) having been canceled, that the Prime Minister certifies a statement contained in the Registration Statement submitted for the notification to be true and accurate, that the Prime Minister certifies that the Registration Statement does not omit a statement as to a material particular, or that the Prime Minister guarantees or recognizes the value of the Securities.

(2) No person may make a representation that is in violation of the provisions of the preceding paragraph.

(Replacement of Terms for Application of Relevant Provisions When Reference Should Be Made to Reference Documents)

Article 23-2 With regard to the application of Article 7, Articles 9 to 11 inclusive, Articles 17 to 21 inclusive, Article 22, and the preceding Article if a statement to which Article 5, paragraph (4) is applicable is submitted or an amended statement is submitted in connection with such a statement, or if a Prospectus to which Article 13, paragraph (3) is applicable is prepared, in Article 7, the phrase "a statement or other document under Article 5, paragraph (1) or paragraph (6)" is deemed to be replaced with "a statement or other document under Article 5, paragraph (1) or paragraph (6) (including the Reference Documents for the statement, if it is one to which Article 5, paragraph (4) is applicable (including as applied mutatis mutandis pursuant to Article 5, paragraph (5); the same applies in Articles 9 to 11 inclusive); the same applies in this Article)"; in Article 9, paragraph (1), the phrase "a statement or other document under Article 5, paragraph (1) or paragraph (6) or Article 7" is deemed to be replaced with "a statement or other document under Article 5, paragraph (1) or paragraph (6) or Article 7 (including the Reference Documents for the statement or amended statement, if it is a statement to which Article 5, paragraph (4) is applicable or an amended statement under Article 7 that has been submitted in connection with such a statement)"; in Article 10, paragraph (1), the term "Registration Statement" is deemed to be replaced with "Registration Statement (including the Reference Documents for the statement or amended statement, if it is a statement to which Article 5, paragraph (4) is applicable or an amended statement under Article 7, paragraph (1) of the preceding Article or this paragraph which has been submitted in connection with such a statement)"; in Article 10, paragraph (3), the term "amended statement" is deemed to be replaced with "amended statement (including the Reference Documents for the amended statement, if it is connected with a statement to which Article 5, paragraph (4) is applicable)"; in Article 11, paragraph (1), the phrase "a Registration Statement contains" is deemed to be replaced with "a Registration Statement (or a Registration Statement or Reference Documents for that Registration Statement, if it is a statement to which Article 5, paragraph (4) is applicable or an amended statement under Article 7, Article 9, paragraph (1) or paragraph (1) of the preceding Article which has been submitted in connection with such a statement) contains"; in Article 11, paragraph (2), the term "amended statement" is deemed to be replaced with "amended statement (including the Reference Documents for the amended statement, if it is connected with a statement to which Article 5, paragraph (4) is applicable)"; in Article 17, the term "Prospectus" is deemed to be replaced with "Prospectus (including the Reference Documents for the

Prospectus, if it is a Prospectus to which Article 13, paragraph (3) is applicable)"; in Article 18, paragraph (1), the phrase "a Registration Statement contains" is deemed to be replaced with "a Registration Statement (or a Registration Statement or Reference Documents for that Registration Statement, if it is a statement to which Article 5, paragraph (4) is applicable or an amended statement under Article 7, Article 9, paragraph (1) or Article 10, paragraph (1) which has been submitted in connection with such a statement) contains"; in Article 18, paragraph (2), the phrase "a Prospectus referred to in Article 13, paragraph (1) contains" is deemed to be replaced with "a Prospectus referred to in Article 13, paragraph (1) (or a Prospectus or Reference Documents for that Prospectus, if it is a Prospectus to which Article 13, paragraph (3) is applicable) contains"; in Article 19, paragraph (2) and the first sentence of Article 20, the term "Registration Statement" is deemed to be replaced with "Registration Statement (including the Reference Documents for the Registration Statement, if it is a statement to which Article 5, paragraph (4) is applicable or an amended statement under Article 7, Article 9, paragraph (1) or Article 10, paragraph (1) which has been submitted in connection with such a statement)" and the term "Prospectus" is deemed to be replaced with "Prospectus (or a Prospectus or Reference Documents for that Prospectus, if it is a Prospectus to which Article 13, paragraph (3) is applicable)"; in Article 21, paragraph (1), the phrase "a Registration Statement contains" is deemed to be replaced with "a Registration Statement (or a Registration Statement or Reference Documents for that Registration Statement, if it is a statement to which Article 5, paragraph (4) is applicable or an amended statement under Article 7, Article 9, paragraph (1) or Article 10, paragraph (1) which has been submitted in connection with such a statement) contains"; in Article 21, paragraph (3), the phrase "a Prospectus referred to in Article 13, paragraph (1) contains" is deemed to be replaced with "a Prospectus referred to in Article 13, paragraph (1) (or a Prospectus or Reference Documents for the Prospectus, if it is a Prospectus to which Article 13, paragraph (3) is applicable) contains"; in Article 22, paragraph (1), the phrase "a Registration Statement contains" is deemed to be replaced with "a Registration Statement (or a Registration Statement or Reference Documents for that Registration Statement, if it is a statement to which Article 5, paragraph (4) is applicable or an amended statement under Article 7, Article 9, paragraph (1) or Article 10, paragraph (1) which has been submitted in connection with such a statement) contains"; and in paragraph (1) of the preceding Article, the term "Registration Statement" is deemed to be replaced with "Registration Statement (including the Reference Documents for the statement or amended statement, if it is a statement to which Article 5, paragraph (4) is applicable or an amended statement under Article 7, Article 9, paragraph (1) or Article 10, paragraph (1) which has been

submitted in connection with such a statement)."

(Submission of a Shelf Registration Statement)

Article 23-3 (1) If an Issuer of Securities that is planning a Public Offering or Secondary Distribution satisfies the requirements specified in Article 5, paragraph (4) and the total issue value or the total distribution value of the Securities for which the Issuer is planning the Public Offering or Secondary Distribution (hereinafter referred to as the "Planned Amount of Issuance") is 100 million yen or more (if the Securities for which the Issuer is planning the Public Offering or Secondary Distribution are share option certificates, this includes when the amount calculated by adding the total amount to be paid in upon the exercise of share options under said share option certificates to the Planned Amount of Issuance is 100 million yen or more), the Issuer of Securities may register said Public Offering or Secondary Distribution of Securities by submitting a document that, pursuant to the provisions of Cabinet Office Ordinance, states the particulars that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors, including the period for which the Issuer is planning the Public Offering or Secondary Distribution of the Securities (hereinafter referred to as the "Planned Issuance Period"), the class of the Securities, the Planned Amount of Issuance or the maximum outstanding balance, and the names of principal Financial Services Providers and registered financial institution Institutions that plan to underwrite the Securities (such document is hereinafter referred to as a "Shelf Registration Statement") to the Prime Minister; provided, however, that this does not apply if the Issuer is planning a Secondary Distribution or Securities that have been the subject of a solicitation with a view to issuing new securities or a solicitation with a view to delivering existing securities that fell under the category of an Exclusive Solicitation to Qualified Institutional Investors set forth in Article 23-13, paragraph (1) (limited to an Exclusive Solicitation to Qualified Institutional Investors to which the main clause of Article 23-13, paragraph (1) is applicable) (excluding a Case In Which Disclosure Has Been Made with regard to the Securities), a Secondary Distribution of Securities for Professional Investors (excluding a Case In Which Disclosure Has Been Made with regard to the Securities), or a Secondary Distribution of Securities that have been the subject of a solicitation with a view to issuing new securities that fell under the category of a Solicitation to a Small Number of Investors set forth in Article 23-13, paragraph (4) (limited to a Solicitation to a Small Number of Investors to which the main clause of Article 23-13, paragraph (4) is applicable) (excluding a Case In Which Disclosure Has Been Made for the Securities).

(2) The preceding paragraph applies only if, in addition to the particulars

specified by Cabinet Office Ordinance which are referred to in said paragraph, the Shelf Registration Statement referred to in said paragraph states, pursuant to the provisions of Cabinet Office Ordinance, that reference should be made to the latest Reference Documents for said Issuer with regard to the particulars set forth in Article 5, paragraph (1), item (ii), and only if such Shelf Registration Statement is accompanied by the documents that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors.

- (3) The provisions of Article 4, paragraph (1) to (3) inclusive do not apply to a Public Offering or Secondary Distribution of the Securities for which a registration under paragraph (1) (hereinafter referred to as a "Shelf Registration") has been made.
- (4) A company that is the Issuer of Securities for which a Shelf Registration has been made may continue to submit Annual Reports and accompanying documents under Article 24, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24, paragraph (5); hereinafter the same applies in this paragraph), even after the obligation to submit an Annual Report under Article 24, paragraph (1) extinguishes, if their submission is necessary to satisfy the requirements set forth in Article 5, paragraph (4).

(Submission of an Amended Shelf Registration Statement)

Article 23-4 If, on or after the day on which a Shelf Registration was made and before the day on which the Shelf Registration ceases to be effective, new documents are submitted that are of the same type as the Reference Documents to which the Shelf Registration Statement states, pursuant to paragraph (2) of the preceding Article, that reference should be made or any other circumstance arises that is specified by Cabinet Office Ordinance as necessitating that the content of the Shelf Registration Statement and accompanying documents (hereinafter collectively referred to as "Shelf Registration Documents" in this Article) be amended in the public interest or for the protection of investors, the person that made the Shelf Registration (hereinafter referred to as the "Shelf Registrant") must submit an Amended Shelf Registration Statement to the Prime Minister pursuant to the provisions of Cabinet Office Ordinance. The same also applies in the absence of such a circumstance, if the Shelf Registrant finds there to be something in the Shelf Registration Documents that necessitates an amendment. In this, the Shelf Registrant may not make an amendment in order to increase the Planned Amount of Issuance or the maximum outstanding balance, change the Planned Issuance Period, or change any other particular specified by Cabinet Office Ordinance.

(Effective Date of a Shelf Registration Statement)

Article 23-5 (1) The provisions of Article 8 apply mutatis mutandis to effectuation of a Shelf Registration Statement. In this case, in Article 8, paragraph (1), the phrase "the statement under Article 5, paragraph (1) (or, if the particulars referred to in the proviso to Article 5, paragraph (1) are not stated in the statement, the amended statement under the preceding Article which is connected with said particulars; the same applies in the following paragraph)" is deemed to be replaced with "Shelf Registration Statement provided for in Article 23-3, paragraph (1) (hereinafter referred to as a 'Shelf Registration Statement' in this Article to Article 23 inclusive)"; in Article 8, paragraph (2), the phrase "an amended statement under the preceding Article" is deemed to be replaced with "an Amended Shelf Registration Statement under Article 23-4" and the phrase "the statement set forth Article 5, paragraph (1)" is deemed to be replaced with "the Shelf Registration Statement"; and in Article 8, paragraph (3), the phrase "statement or other document under Article 5, paragraph (1) or, paragraph (6) or the preceding Article" is deemed to be replaced with "Shelf Registration Statement and accompanying documents or an Amended Shelf Registration Statement under Article 23-4 submitted before the day on which the Shelf Registration prescribed in Article 23-3, paragraph (3) (hereinafter referred to as a 'Shelf Registration' in this Article to Article 23) comes into effect" and the phrase "person submitting the statement and other documents" is deemed to be replaced with "person submitting that document".

(2) If, pursuant to the preceding Article, an Amended Shelf Registration Statement is submitted on or after the day on which a Shelf Registration comes into effect and the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order the suspension of the validity of the Shelf Registration during a fixed period of no longer than 15 days designated thereby.

(Planned Issuance Period for Securities under Shelf Registration)

Article 23-6 (1) The Planned Issuance Period for Securities under Shelf Registration is the period that is specified by Cabinet Office Ordinance of up to two years from the day on which the Shelf Registration comes into effect.

(2) A Shelf Registration ceases to be effective on the day on which the Planned Issuance Period under the preceding paragraph has elapsed.

(Submission of a Written Withdrawal of Shelf Registration)

Article 23-7 (1) If a Public Offering or Secondary Distribution has ended for Securities comprising the entire Planned Amount of Issuance before the day on which the Planned Issuance Period set forth in paragraph (1) of the preceding

Article elapses, the Shelf Registrant shall withdraw the Shelf Registration by submitting a written withdrawal of Shelf Registration in which it indicates this to the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance.

- (2) Notwithstanding the provisions of paragraph (2) of the preceding Article, in a case referred to in the preceding paragraph, the Shelf Registration ceases to be effective on the day on which the Prime Minister accepts the written withdrawal of Shelf Registration.

(Submission of Shelf Registration Supplements)

Article 23-8 (1) It is prohibited for an Issuer, person that engages in the Secondary Distribution of Securities, Underwriter, Financial Services Provider , or registered financial institution to cause Securities whose Public Offerings or Secondary Distributions have been registered in advance through a Shelf Registration to be acquired through Public Offerings or Secondary Distributions, or to sell such Securities through Public Offerings or Secondary Distributions, unless the Shelf Registration has come into effect and a document stating the total issue value or total distribution value, conditions of issuance or distribution of the Securities, and any other particulars that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors (hereinafter referred to as "Shelf Registration Supplement") has been submitted to the Prime Minister for each Public Offering or Secondary Distribution, pursuant to the provisions of Cabinet Office Ordinance; provided however, that this does not apply to Public Offerings or Secondary Distributions specified by Cabinet Office Ordinance if the total issue value or total distribution value of each Public Offering or Secondary Distribution is less than 100 million.

- (2) Notwithstanding the provisions of the preceding paragraph, the Issuer, person that engages in the Secondary Distribution of Securities, Underwriter, Financial Services Provider , or registered financial institution may cause short-term corporate bonds provided for in Article 66, item (i) of the Act on Book-entry Transfer of Corporate Bonds, etc. or any other bonds, etc. specified by Cabinet Order that are among the book-entry bonds, etc. set forth in Article 129, paragraph (1) of that Act (limited to those with an outstanding balance that is made available for public inspection by the Book-Entry Transfer Institution (meaning a Book-Entry Transfer Institution provided for in Article 2, paragraph (2) of that Act) that deals in the relevant book-entry bonds, etc.), whose Public Offerings or Secondary Distributions have been registered in advance through a Shelf Registration, to be acquired through Public Offerings or Secondary Distributions or to sell such bonds, etc. through Public Offerings or Secondary Distributions, if the Shelf Registration has come into effect.

- (3) If a Public Offering or Secondary Distribution of Securities will be made only

to shareholders that are stated or recorded in the shareholder register as of a certain date, the Shelf Registration Supplement for said Public Offering or Secondary Distribution must be submitted by 10 days prior to that date; provided, however, that this does not apply in the cases that are specified by Cabinet Office Ordinance in consideration of the issue price or distribution price or other circumstances.

- (4) The provisions of Article 4, paragraphs (5) and (6) apply mutatis mutandis to a Public Offering or Secondary Distribution of Securities to which the proviso to paragraph (1) is applicable. In this case, in Article 4, paragraph (5), the phrase "in a Specified Public Offering" is deemed to be replaced with "in a Public Offering or Secondary Distribution" and the phrase "apply to said Specified Public Offering" is deemed to be replaced with "apply to said Public Offering or Secondary Distribution"; and in Article 4, paragraph (6), the phrase "the Securities in the Specified Public Offering, etc.," is deemed to be replaced with "said Securities", the phrase "the Specified Public Offering, etc. begins" is deemed to be replaced with "the Public Offering or Secondary Distribution begins", the phrase "a written notice of the Specified Public Offering, etc." is deemed to be replaced with "a written notice of the Public Offering or Secondary Distribution", and the phrase "a Secondary Distribution of Securities set forth in paragraph (4) whose total distribution value is less than 100 million yen in a Case In Which Disclosure Has Been Made, nor to a Secondary Distribution of Securities as set forth in paragraph (1), item (iii) conducted by a person other than the Issuer of said Securities or a person specified by Cabinet Office Ordinance, nor to a Public Offering or Secondary Distribution of Securities as set forth in item (v) of that paragraph whose total issue value" is deemed to be replaced with "a Public Offering or Secondary Distribution whose total issue value".
- (5) As well as stating, pursuant to the provisions of Cabinet Office Ordinance and in addition to the particulars specified by Cabinet Office Ordinance which are referred to in paragraph (1), that reference should be made to the latest Reference Documents on the Issuer with regard to the particulars set forth in Article 5, paragraph (1), item (ii), the Shelf Registration Supplements referred to in paragraph (1) must be accompanied by the documents that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest for the protection of investors.

(Order to Submit an Amended Shelf Registration Statement Due to a Formal Deficiency, etc.)

Article 23-9 (1) If the Prime Minister finds a formal deficiency in a Shelf Registration Statement (including Reference Documents for that Registration Statement) or accompanying document or in an Amended Shelf Registration

Statement under Article 23-4 (including Reference Documents for that Amended Registration Statement), or finds one of these documents to insufficiently state a material particular that is required to be stated therein, the Prime Minister may order the person submitting the document to submit an Amended Shelf Registration Statement. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.

- (2) Notwithstanding the provisions of Article 8 as applied mutatis mutandis pursuant to Article 23-5, paragraph (1), if a disposition under the preceding paragraph is reached before the day on which the Shelf Registration comes into effect, the Shelf Registration comes into effect on the day on which the period designated by the Prime Minister elapses following the day on which the Prime Minister accepts the Shelf Registration Statement for that Shelf Registration.
- (3) In a case referred to in the preceding paragraph, if an Amended Shelf Registration Statement under Article 23-4 is submitted during the period designated by the Prime Minister, the Shelf Registration Statement is deemed to have been accepted by the Prime Minister on the day on which the Prime Minister accepts the Amended Shelf Registration Statement.
- (4) In a case referred to in the preceding paragraph, if the Prime Minister finds that an Amended Shelf Registration Statement under Article 23-4 is easily understandable to the public or finds that information about the particulars set forth in Article 5, paragraph (1), item (ii) with regard to the person that submitted the Amended Shelf Registration Statement is already widely available to the public, the Prime Minister may designate a period that is shorter than that which the Prime Minister has designated as under paragraph (2). In such a case, the Shelf Registration comes into effect on the day on which the shorter period has elapsed.
- (5) The provisions of paragraph (3) apply mutatis mutandis if the shorter period under the preceding paragraph is designated and an Amended Shelf Registration Statement under Article 23-4 is submitted during that shorter period.

(Order to Submit an Amended Shelf Registration Statement Due to a False Statement, etc.)

Article 23-10 (1) If the Prime Minister finds that a Shelf Registration Statement (including Reference Documents for that Shelf Registration Statement) or accompanying document, an Amended Shelf Registration Statement under Article 23-4 or paragraph (1) of the preceding Article (including Reference Documents for that Amended Shelf Registration Statement), or a Shelf Registration Supplement (including a Reference Document for a Shelf

Registration Supplement) or accompanying document contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading, the Prime Minister, at any time, may order the person submitting the document to submit an Amended Shelf Registration Statement. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.

- (2) The provisions of paragraphs (2) to (5) inclusive of the preceding Article apply mutatis mutandis if an order is issued to submit an Amended Shelf Registration Statement under the preceding paragraph before the day on which the Shelf Registration comes into effect.
- (3) If the Prime Minister finds it to be necessary upon reaching a disposition under paragraph (1) on or after the day that a Shelf Registration comes into effect the Prime Minister may order the suspension of the validity of the Shelf Registration.
- (4) If an order for suspension under the preceding paragraph is issued and an Amended Shelf Registration Statement under paragraph (1) is submitted, and if the Prime Minister finds the Amended Shelf Registration Statement to be appropriate, the Prime Minister cancels the order for suspension under the preceding paragraph.
- (5) The provisions of the preceding paragraphs apply mutatis mutandis if the Prime Minister finds that an Amended Shelf Registration Statement submitted pursuant to paragraph (1) (including Reference Documents referenced therein) contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading.

(Suspension of the Validity of a Shelf Registration Due to a False Statement)

Article 23-11 (1) If a Shelf Registration Statement or an accompanying document, an Amended Shelf Registration Statement under Article 23-4, Article 23-9, paragraph (1) or paragraph (1) of the preceding Article (including as applied mutatis mutandis pursuant to Article 23-10, paragraph (5)), a Shelf Registration Supplement or an accompanying document, or a Reference Document for any of the foregoing documents, contains a false statement about a material particular and the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may issue an order against the person submitting that document, with regard to any Shelf Registration Statement or accompanying document, Amended Shelf Registration Statement, or Shelf Registration Supplement or

accompanying document (hereinafter collectively referred to as a "Shelf Registration Document, etc." in this Article), or with regard to any statement as set forth in Article 5, paragraph (1), Shelf Registration Statement, or Shelf Registration Supplement, that the person submitting the relevant Shelf Registration Document, etc. submits within one year of the day on which the person submits said Shelf Registration Document, etc., ordering the suspension of the validity of the Shelf Registration under the Shelf Registration Document, etc., the validity of the notification under such a statement, or the validity of the Shelf Registration under such a Shelf Registration Statement or Shelf Registration Supplement, or may extend the period stipulated in Article 8, paragraph (1) (including as applied mutatis mutandis pursuant to Article 23-5, paragraph (1)), for the period that the Prime Minister considers appropriate in the public interest or for the protection of investors. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.

- (2) If a disposition under the preceding paragraph is reached and the Prime Minister finds that the content of an Amended Shelf Registration Statement (including Reference Documents referenced therein) submitted pursuant to Article 23-4 or paragraph (1) of the preceding Article (including as applied mutatis mutandis pursuant to Article 23-10, paragraph (5)) in relation to the false statement referred to in the preceding paragraph is appropriate, and that allowing the acquisition or sale of Securities issued by the person that submitted the Shelf Registration Documents through a Public Offering or Secondary Distribution will not compromise the public interest or the protection of investors, the Prime Minister may cancel the disposition under the preceding paragraph.

(Mutatis Mutandis Application of Relevant Provisions for Shelf Registration Statements, etc.)

Article 23-12 (1) The provisions of Article 6 apply mutatis mutandis if a Shelf Registration Statement and accompanying documents, an Amended Shelf Registration Statement under Article 23-4, Article 23-9, paragraph (1) or Article 23-10, paragraph (1) (including as applied mutatis mutandis pursuant to Article 23-10, paragraph (5)) or Shelf Registration Supplements and accompanying documents are submitted.

- (2) The provisions of Article 13, paragraph (1) apply mutatis mutandis to the Issuer of Securities for which a Shelf Registration is filed, the main clause of Article 13, paragraph (2) applies mutatis mutandis to the Prospectus prepared by the Issuer of Securities for which a Shelf Registration is filed, and the provisions of Article 13, paragraphs (4) and (5) apply mutatis mutandis to a

Public Offering or Secondary Distribution of Securities for which a Shelf Registration is filed. In this case, in the main clause of Article 13, paragraph (2), the phrase "For a category set forth in one of the following items, the details of the particulars that are specified in that item" is deemed to be replaced with "The details that are required to be stated in a Shelf Registration Statement, an Amended Shelf Registration Statement under Article 23-4, or Shelf Registration Supplements, and the details specified by Cabinet Office Ordinance".

- (3) The provisions of Article 15, paragraphs (2) and (6) apply mutatis mutandis to a Public Offering or Secondary Distribution of Securities for which a Shelf Registration is filed. In this case, in Article 15, paragraph (2), the phrase "a Prospectus that states the particulars specified in Article 13, paragraph (2), item (i)" is deemed to be replaced with "the Prospectus referred to in Article 13, paragraph (1) as applied mutatis mutandis pursuant to Article 23-12, paragraph (2)"; and in Article 15, paragraph (6), the phrase "paragraph (2) to the preceding paragraph" is deemed to be replaced with "paragraph (2)", the phrase "Article 10, paragraph (1) or Article 11, paragraph (1)" is deemed to be replaced with "Article 23-10, paragraph (3) or Article 23-11, paragraph (1)", and the phrase "the notification under Article 4, paragraphs (1) to (3) inclusive for the Public Offering or Secondary Distribution came into effect" is deemed to be replaced with "the Shelf Registration Supplements are submitted for a Shelf Registration that has been filed for the Public Offering or Secondary Distribution and has already come into effect".
- (4) The provisions of Article 16 apply mutatis mutandis to a person that violates the provisions of Article 23-8, paragraph (1) or (2), or Article 15, paragraph (2) or (6) as applied mutatis mutandis pursuant to the preceding paragraph in causing Securities to be acquired.
- (5) The provisions of Articles 17 to 21 inclusive, Article 22, and Article 23 apply mutatis mutandis to a Public Offering or Secondary Distribution of Securities for which a Shelf Registration is filed. In this case, in Article 17, the phrase "Prospectus referred to in Article 13, paragraph (1)" is deemed to be replaced with "Prospectus referred to in Article 13, paragraph (1) as applied mutatis mutandis pursuant to Article 23-12, paragraph (2) (including Reference Documents referenced therein)"; in Article 18, paragraph (1), the phrase "a Registration Statement contains" is deemed to be replaced with "Shelf Registration Documents, an Amended Shelf Registration Statement under Article 23-4, Article 23-9, paragraph (1) or Article 23-10, paragraph (1) (including as applied mutatis mutandis pursuant to Article 23-10, paragraph (5)) (hereinafter referred to as an 'Amended Shelf Registration Statement'), Shelf Registration Supplements and accompanying documents, or Reference Documents for any of these documents (hereinafter referred to as 'Shelf



referred to in Article 23-8, paragraph (2), based on the Shelf Registration for it having come into effect)", the phrase "Article 10, paragraph (1) or Article 11, paragraph (1)" is deemed to be replaced with "Article 23-10, paragraph (3) or Article 23-11, paragraph (1)", the phrase "the Registration Statement" is deemed to be replaced with "the Shelf Registration Documents, etc."; and the term "the notification" is deemed to be replaced with "the Shelf Registration".

(6) The provisions of paragraphs (2) and (3) and the provisions of Article 17, Article 18, paragraph (2) and Article 21, paragraph (3) as applied mutatis mutandis pursuant to the preceding paragraph do not apply to Securities referred to in Article 23-8, paragraph (2).

(Notification, etc. of Exclusive Solicitation to Qualified Institutional Investors)

Article 23-13 (1) A person that issues a solicitation with a view to issuing new securities or a solicitation with a view to delivering existing securities which falls under a case set forth in the following items (in item (ii), limited to a solicitation issued to qualified institutional investors that are excluded from the large number of persons pursuant to the provisions of Article 2, paragraph (3), item (i), and in a case set forth in item (iv), limited a solicitation issued to qualified institutional investors that are excluded from the large number of persons pursuant to paragraph (4), item (i) of that Article; hereinafter collectively referred to as "Exclusive Solicitation to Qualified Institutional Investors" in this Article), must notify the solicited persons that the Exclusive Solicitation to Qualified Institutional Investors falls under one of the following cases and that therefore the notification under Article 4, paragraph (1) has not been made for the Exclusive Solicitation to Qualified Institutional Investors, and of any other particular that is specified by Cabinet Office Ordinance; provided, however, that this does not apply to a Case In Which Disclosure Has Been Made with regard to the Securities that are subject to the Exclusive Solicitation to Qualified Institutional Investors nor does it apply to a case specified by Cabinet Office Ordinance that constitutes an Exclusive Solicitation to Qualified Institutional Investors with a total issue value or transfer value of less than 100 million yen:

- (i) a case set forth in Article 2, paragraph (3), item (ii), sub-item (a);
- (ii) a case set forth in Article 2, paragraph (3), item (ii), sub-item (c) (but only if it comes to no longer fall under the category of case set forth in item (i) of that paragraph, due to the qualified institutional investors' being excluded from the large number of persons pursuant to that item);
- (iii) a case set forth in Article 2, paragraph (4), item (ii), sub-item (a);
- (iv) a case set forth in Article 2, paragraph (4), item (ii), sub-item (c) (but only if it comes to no longer fall under the category of case set forth in item (i) of that paragraph, due to the qualified institutional investors' being excluded

- from the large number of persons pursuant to that item);
- (v) a case set forth in Article 2-2, paragraph (4), item (ii), sub-item (a); or
- (vi) a case set forth in Article 2-2, paragraph (5), item (ii), sub-item (a).
- (2) If a person that issues an Exclusive Solicitation to Qualified Institutional Investors to which the main clause of the preceding paragraph is applicable causes Securities to be acquired or sells Securities through that Exclusive Solicitation to Qualified Institutional Investors, such person must deliver a document stating the particulars for which notice is required to be given pursuant to the preceding paragraph to the other party in advance of, or at the same time as, the acquisition or sale.
- (3) A person performing an act set forth in one of the following items must notify the person solicited of the particulars provided for in the relevant item, pursuant to the provisions of Cabinet Office Ordinance; provided, however, that this does not apply to a Case In Which Disclosure Has Been Made for the Securities with regard to which such act was performed:
- (i) the Exclusive Solicitation of Offers to Acquire Targeting Professional Investors or an exclusive Offer to Sell, etc. to Professional Investors: that a notification under Article 4, paragraph (1) has not been given for the Exclusive Solicitation of Offers to Acquire Targeting Professional Investors or exclusive Offer to Sell, etc. to Professional Investors, and any other particular specified by Cabinet Office Ordinance; and
- (ii) solicitation with a view to delivering existing securities which is connected with Securities for Professional Investors and which does not fall under the category of either an exclusive Offer to Sell, etc. to Professional Investors or a General Solicitation Involving Securities Acquired by a Professional Investor (limited to those to which the main clause of Article 4, paragraph (3) is applicable): that the solicitation does not fall under a Case In Which Disclosure Has Been Made in connection with the Securities for Professional Investors, and any other particular specified by Cabinet Office Ordinance.
- (4) A person that issues a solicitation with a view to issuing new securities or solicitation with a view to delivering existing securities that falls under a case set forth in one of the following items for the class of Securities set forth in the relevant item (excluding a case that falls under the category of a solicitation with a view to issuing new securities or solicitation with a view to delivering existing securities for the Securities set forth in Article 2, paragraph (1), item (ix) or those specified by Cabinet Order, and in the case set forth in item (i), sub-item (a) or (b), Exclusive Solicitation to Qualified Institutional Investors is excluded; hereinafter collectively referred to as the "Solicitation to a Small Number of Investors" in this Article) must notify the solicited persons that the solicitation with a view to issuing new securities falls under a case set forth in one of the following items (for item (i), sub-item (a) or (b), this excludes a case

in which the Solicitation to a Small Number of Investors falls under the category of an Exclusive Solicitation to Qualified Institutional Investors) for the class of Securities set forth in the relevant item and therefore the notification under Article 4, paragraph (1) has not been given for the solicitation with a view to issuing new securities, and of any other particular that is specified by Cabinet Office Ordinance; provided, however, that this does not apply to a Case In Which Disclosure Has Been Made with regard to the Securities that are subject to the relevant Solicitation to a Small Number of Investors, nor does it apply in a case specified by Cabinet Office Ordinance that constitutes a Solicitation to a Small Number of Investors with a total issue value or transfer value of less than 100 million yen:

(i) Article 2 (1) Securities: any of the following cases:

- (a) one that falls under Article 2, paragraph (3), item (ii), sub-item (c);
- (b) one that falls under Article 2, paragraph (4), item (ii), sub-item (c);
- (c) one that falls under Article 2-2, paragraph (4), item (ii), sub-item (b);
- (d) one that falls under Article 2-2, paragraph (5), item (ii), sub-item (b).

(ii) Article 2 (2) Securities: any of the following cases:

- (a) one that does not fall under the category of cases set forth in Article 2, paragraph (3), item (iii);
- (b) one that does not fall under the category of cases set forth in Article 2-2, paragraph (4), item (iii).

(5) If a person that issues a Solicitation to a Small Number of Investors to which the main clause of the preceding paragraph is applicable causes Securities to be acquired or sells the same through the Solicitation to a Small Number of Investors, such person must deliver a document stating the particulars for which notice is required to be given pursuant to the preceding paragraph to the other party in advance of, or at the same time as, the acquisition or sale.

(Submission of Annual Reports)

Article 24 (1) If Securities issued by a company (excluding regulated Securities; hereinafter the same applies in this Article, except in the following items) fall under one of the categories set forth in the following items, the company that is the Issuer of the Securities must submit, for each business year, a report stating the trade name of the company, the financial condition of the corporate group to which the company belongs and the company's own financial condition, other material particulars of the company's business, and other particulars specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors (hereinafter referred to as an "Annual Report") to the Prime Minister, within three months after the end of that business year (or, if there is a compelling reason that the company cannot submit the document within such period, within a period approved in advance

by the Prime Minister pursuant to the provisions of Cabinet Office Ordinance), for a domestic company, or within the period that is specified by Cabinet Order as necessary and appropriate in the public interest or for the protection of investors, for a foreign company, pursuant to the provisions of Cabinet Office Ordinance; provided however, that this does not apply if the Securities issued by the company fall under the category of Securities specified in item (iii) below (limited to share certificates and other Securities specified by Cabinet Order) and the numbers of holders of the Securities on the last day of that business year and on the last days of each of the business years that began within four years before the day on which the relevant business year began are smaller than the number calculated pursuant to the provisions of Cabinet Order, and the company receives the acknowledgement of the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, as a company whose non-submission of an Annual Report does not damage the public interest or result in insufficient investor protection (limited to a company that has already had five years elapse since the end of the first year of report submission (meaning the business year that includes the day on which the main clause of Article 4, paragraph (1), the main clause of Article 4, paragraph (2), the main clause of Article 4, paragraph (3), or the main clause of Article 23-8, paragraph (1) or (2) became applicable to the Public Offering or Secondary Distribution of Securities, and if there are two or more First Years of Report Submission, this means the most recent one); nor does it apply if the Securities issued by the company fall under the category of Securities specified in item (iv) below, and the stated capital is less than 500 million yen (or, if the Securities are Rights in a Securities Investment Business, etc. that are deemed to be Securities pursuant to Article 2, paragraph (2), and the amount that is specified by Cabinet Order as the stated capital is less than the amount specified by Cabinet Order on the last day of that business year) or the number of holders of the Securities on the last day of that business year is smaller than the number specified by Cabinet Order; nor does it apply if the Securities issued by the company fall under the category of Securities specified in item (iii) or (iv) below, and the company receives the acknowledgement of the Prime Minister, pursuant to Cabinet Order, as a company whose non-submission of an Annual Report does not damage the public interest or result in insufficient investor protection:

- (i) Securities listed on a Financial Instruments Exchange (excluding Specified Listed Securities);
- (ii) Securities specified by Cabinet Order as having equivalent distribution statuses to the Securities set forth in the preceding item (excluding Securities specified by Cabinet Order as having equivalent distribution statuses to Specified Listed Securities);

- (iii) Securities to whose Public Offering or Secondary Distribution the main clause of Article 4, paragraph (1), the main clause of Article 4, paragraph (2), the main clause of Article 4, paragraph (3), or the main clause of Article 23-8, paragraph (1) or (2) applies (excluding those specified in the preceding two items); or
  - (iv) Securities (limited to share certificates, Rights in a Securities Investment Business, etc. that are deemed to be Securities pursuant to Article 2, paragraph (2), and other Securities specified by Cabinet Order) that are issued by the company, for which the number of holders on the last day of the relevant business year or on the last day of any of the business years that began within four years before the day on which the relevant business year began is at least the number specified by Cabinet Order (or, for Rights in a Securities Investment Business, etc. that are deemed to be Securities pursuant to Article 2, paragraph (2), if the number of holders on the last day of the relevant business year is at least the number specified by Cabinet Order) (excluding Securities specified in the preceding three items).
- (2) In the Annual Report that a company must submit pursuant to the main clause of the preceding paragraph, a company that is an Issuer of Securities that fall under the category of Securities specified in item (iii) of the preceding paragraph, which has submitted a statement provided for in Article 5, paragraph (1) stating the particulars specified in Article 5, paragraph (2) with regard to a Low-Value Public Offering, etc., and which does not fall under any of the following categories, may state the particulars set forth in the main clause of the preceding paragraph that are specified by Cabinet Office Ordinance as being relevant to that company, instead of stating the particulars set forth in the main clause of the preceding paragraph:
- (i) a person that has already submitted an Annual Report stating the particulars set forth in the main clause of the preceding paragraph, a Quarterly Report under Article 24-4-7, paragraph (1) or (2) stating the particulars set forth in Article 24-4-7, paragraph (1), or a Semiannual Report stating the particulars set forth in Article 24-5, paragraph (1); and
  - (ii) a person that has submitted or is required to submit a statement provided for in Article 5, paragraph (1) stating the particulars set forth in Article 5, paragraph (1), item (ii) for a Public Offering or Secondary Distribution of Securities to which the main clause of Article 4, paragraph (1), the main clause of Article 4, paragraph (2), or the main clause of Article 4, paragraph (3) applies (other than a person specified in the preceding item).
- (3) If the Securities issued by a company to which the main clause of paragraph (1) does not apply, come to fall under a category of Securities specified in items (i) to (iii) inclusive of that paragraph (except in the cases specified by Cabinet Office Ordinance), the company must submit an Annual Report to the Prime

Minister without delay for the business year immediately prior to the business year that includes the day on which the Securities come to fall under such category, pursuant to the provisions of Cabinet Office Ordinance.

(4) Necessary particulars relevant to the calculation of the number of holders set forth in paragraph (1), item (iv) are specified by Cabinet Office Ordinance.

(5) The provisions of the preceding paragraphs apply mutatis mutandis if regulated Securities issued by a company fall under a category specified in an item of paragraph (1). In this case, in the main clause paragraph (1), the phrase "the company that is the Issuer of the Securities" is deemed to be replaced with "the company that is the Issuer of the Securities (other than a person specified by Cabinet Office Ordinance, for Securities that are specified by Cabinet Office Ordinance)", the phrase "excluding regulated Securities" is deemed to be replaced with "limited to regulated Securities", the phrase "the trade name of the company, the financial condition of the corporate group to which the company belongs and the company's own financial condition, other material particulars of the company's business" is deemed to be replaced with "the status of the company's asset accounting in connection with asset management and other similar business conducted by the company, other material particulars of the company's assets", the phrase "for each business year" is deemed to be replaced with "for each of the periods of time specified by Cabinet Office Ordinance for the regulated Securities (hereinafter referred to as a "Specified Period" in this Article)", and the phrase "that business year" is deemed to be replaced with "that Specified Period"; in the proviso to that paragraph, the phrase "this does not apply if the Securities issued by the company fall under the category of Securities specified in item (iii) below (limited to share certificates and other Securities specified by Cabinet Order) and the numbers of holders of the Securities on the last day of that business year and on the last days of each of the business years that began within four years before the day on which that business year began are smaller than the number calculated pursuant to the provisions of Cabinet Order, and the company receives the acknowledgement of the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, as a company whose non-submission of an Annual Report does not damage the public interest or result in insufficient investor protection (limited to a company that has already had five years elapse since the end of the first year of report submission (meaning the business year that includes the day on which the main clause of Article 4, paragraph (1), the main clause of Article 4, paragraph (2), the main clause of Article 4, paragraph (3), or the main clause of Article 23-8, paragraph (1) or (2) became applicable to the Public Offering or Secondary Distribution of Securities, and if there are two or more First Years of Report Submission, this means the most recent one); nor does it apply if the Securities issued by the

company fall under the category of Securities specified in item (iv) below" is deemed to be replaced with "this does not apply if the regulated Securities issued by the company fall under the category of Securities specified in item (iv) below" and the phrase "or the number of holders of the Securities on the last day of that business year is smaller than the number specified by Cabinet Order; nor" is deemed to be replaced with "; nor"; in item (iv) of paragraph (1), the phrase "share certificates, Rights in a Securities Investment Business, etc. that are deemed to be Securities pursuant to Article 2, paragraph (2)" is deemed to be replaced with "Rights in a Securities Investment Business, etc. that are deemed to be Securities pursuant to Article 2, paragraph (2)" and the phrase "for which the number of holders on the last day of the relevant business year or on the last day of any of the business years that began within four years before the day on which the relevant business year began is at least the number specified by Cabinet Order (or, for Rights in a Securities Investment Business, etc. that are deemed to be Securities pursuant to Article 2, paragraph (2), if the number of holders on the last day of the relevant business year is at least the number specified by Cabinet Order)" is deemed to be replaced with "for which the number of holders on the last day of the relevant Specified Period is at least the number specified by Cabinet Order"; in paragraph (2), the phrase "Securities that fall" is deemed to be replaced with "regulated Securities that fall"; in paragraph (3), the phrase "the main clause of paragraph (1)" is deemed to be replaced with "the main clause of paragraph (1) as applied mutatis mutandis pursuant to paragraph (5)", the phrase "business year" is deemed to be replaced with "Specified Period", and the phrase "the day on which the Securities came to fall under" is deemed to be replaced with "the day on which the regulated Securities came to fall under"; and any other necessary technical replacement of terms is specified by Cabinet Order.

- (6) The articles of incorporation or other documents that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors must accompany an Annual Report.
- (7) The provisions of Article 6 apply mutatis mutandis if an Annual Report and accompanying documents are submitted pursuant to paragraphs (1) to (3) inclusive (including as applied mutatis mutandis pursuant to paragraph (5)) and the preceding paragraph.
- (8) In a case that is specified by Cabinet Office Ordinance as one in which this does not damage the public interest or result in insufficient investor protection, instead of an Annual Report under paragraph (1) and the documents that are required to accompany it pursuant to paragraph (6) (hereinafter collectively referred to as an "Annual Report, etc." in this Article), a foreign company that is required to submit an Annual Report pursuant to paragraph (1) (including as

applied mutatis mutandis pursuant to paragraph (5); hereinafter the same applies in this paragraph to paragraph (13) inclusive) (including a foreign company that has submitted an Annual Report pursuant to Article 23-3, paragraph (4); hereinafter referred to as a "Reporting Foreign Company"), may submit a document that is similar to an Annual Report, etc., but that has been prepared in English and disclosed in a foreign state (meaning that it is made available for public inspection in the relevant foreign state based on the laws and regulations of that state (including the rules provided by the operator of a foreign Financial Instruments Market or other person specified by Cabinet Office Ordinance); the same applies in Article 24-4-7, paragraph (6) and Article 24-5, paragraph (7)) (such a document is hereinafter referred to as a "Foreign Company Report" in this Chapter).

(9) A Japanese translation of the summary of the particulars stated in a Foreign Company Report that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors, as well as documents stating the particulars not stated in a Foreign Company Report that are specified by Cabinet Office Ordinance as necessary and appropriate for the public interest or for the protection of investors, and other documents specified by Cabinet Office Ordinance (such documents are hereinafter collectively referred to as "Supplementary Documents" in this Article and paragraph (4) of the following Article) must accompany a Foreign Company Report, as specified by Cabinet Office Ordinance.

(10) If a Reporting Foreign Company submits a Foreign Company Report and its Supplementary Documents instead of an Annual Report, etc. pursuant to the preceding two paragraphs, in paragraph (1), the phrase "within three months after the end of that business year (or, if there is a compelling reason that the company cannot submit the document within such period, within a period approved in advance by the Prime Minister pursuant to the provisions of Cabinet Office Ordinance), for a domestic company, or within the period that is specified by Cabinet Order as necessary and appropriate in the public interest or for the protection of investors, for a foreign company" is deemed to be replaced with "within the period that is specified by Cabinet Order as necessary and appropriate in the public interest or for the protection of investors" and in paragraph (5), the phrase "in the main clause of paragraph (1), the term 'that business year' is deemed to be replaced with 'that Specified Period' " is deemed to be replaced with "the phrase 'within three months after the end of that business year (or, if there is a compelling reason that the company cannot submit the document within such period, within a period approved in advance by the Prime Minister pursuant to the provisions of Cabinet Office Ordinance), for a domestic company, or within the period that is specified by Cabinet Order as necessary and appropriate in the public interest

or for the protection of investors, for a foreign company' is deemed to be replaced with 'within the period that is specified by Cabinet Order as necessary and appropriate in the public interest or for the protection of investors following the Specified Period has elapsed' ".

- (11) If a Reporting Foreign Company submits a Foreign Company Report and its Supplementary Documents pursuant to paragraphs (8) and (9), the Foreign Company Report and Supplementary Documents are deemed to be an Annual Report, their submission is deemed to be the submission of an Annual Report, etc., and the provisions of this Act and orders based on this Act (hereinafter referred to as the "Financial Instruments and Exchange Act and Related Regulations" in this Chapter to Chapter II-4 inclusive) apply.
- (12) If the Prime Minister finds that a Reporting Foreign Company that has submitted a Foreign Company Report does not satisfy the requirements referred to in paragraph (8) for being allowed to submit a Foreign Company Report, the Prime Minister must notify the Reporting Foreign Company of this. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.
- (13) Notwithstanding the provisions of paragraph (1), if a Reporting Foreign Company receives a notice under the preceding paragraph, it must submit an Annual Report under the provisions of paragraph (1) within the period that is specified by Cabinet Order as necessary and in the public interest or for the protection of investors, with the day on which the notice is made as the first day for the calculation of that period.
- (14) If, pursuant to the provisions of Cabinet Office Ordinance, a company that is required to submit an Annual Report pursuant to paragraph (1) (but only as applied *mutatis mutandis* pursuant to paragraph (5); hereinafter the same applies in this Article) submits the documents stating a part of the particulars specified by Cabinet Office Ordinance that are provided for in paragraph (1) (limited to documents prepared based on laws and regulations or the rules of a Financial Instruments Exchange (including anything specified by Cabinet Office Ordinance as being similar to such rules); such documents are hereinafter referred to as "Documents Substituted for Part of an Annual Report" in this paragraph and the following paragraph) together with an Annual Report to the Prime Minister, with regard to the application of paragraphs (1) and (2) to cases in which a company receives the acknowledgement of the Prime Minister, pursuant to Cabinet Office Ordinance, as one whose doing so does not damage the public interest or result in insufficient investor protection, in paragraph (1), the phrase "other particulars that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors" is deemed to be replaced

with "other particulars that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors (other than the particulars stated in the Documents Substituted for Part of the Annual Report prescribed in paragraph (14))" and in paragraph (2), the phrase "the particulars set forth in the main clause of the preceding paragraph" is deemed to be replaced with "the particulars set forth in the main clause of the preceding paragraph (other than the particulars stated in Documents Substituted for Part of the Annual Report provided for in paragraph (14))".

(15) If Documents Substituted for Part of an Annual Report are submitted together with an Annual Report referred to in paragraph (1) as it applies through the replacement of certain terms pursuant to the preceding paragraph, the Documents Substituted for Part of the Annual Report are deemed to form a part of the Annual Report, the submission of the Documents Substituted for Part of the Annual Report is deemed to be the submission of the Documents Substituted for Part of the Annual Report as a part of the Annual Report, and the provisions of the Financial Instruments and Exchange Act and Related Regulations apply.

(Mutatis Mutandis Application of Provisions on Amended Statements)

Article 24-2 (1) The provisions of Article 7, Article 9, paragraph (1), and Article 10, paragraph (1) apply mutatis mutandis to an Annual Report and accompanying documents. In this case, in Article 7, the phrase "If, on or after the day on which a notification under Article 4, paragraphs (1) to (3) inclusive is filed and before the day on which that notification comes into effect, a material particular that is required to be stated in a statement or other document under Article 5, paragraph (1) or paragraph (6) changes" is deemed to be replaced with "If a material particular that is required to be stated in an Annual Report or accompanying document changes", the phrase "the person filing the notification" is deemed to be replaced with "the person submitting the Annual Report", and the term "amended statement" is deemed to be replaced with "amended report"; in Article 9, paragraph (1), the phrase "the person that submitted it" is deemed to be replaced with "the person that submitted the Annual Report" and the term "amended statement" is deemed to be replaced with "amended report"; and in Article 10, paragraph (1), the phrase "the person submitting the Registration Statement" is deemed to be replaced with "the person submitting the amended report" and the phrase "to submit an amended statement, and if the Prime Minister finds it to be necessary, the Prime Minister may order the suspension of the validity of a notification under Article 4, paragraphs (1) to (3) inclusive" is deemed to be replaced with "to submit an amended report".

- (2) If a company that is an Issuer of Securities submits an amended report, pursuant to Article 7 or Article 10, paragraph (1) as applied mutatis mutandis pursuant to the preceding paragraph, with regard to a material particular for inclusion in its Annual Report, it must give public notice of this pursuant to the provisions of Cabinet Order.
- (3) The provisions of Article 6 apply mutatis mutandis if an amended report is submitted in connection with an Annual Report or accompanying document, pursuant to Article 7, Article 9, paragraph (1) or Article 10, paragraph (1) as applied mutatis mutandis pursuant to paragraph (1).
- (4) The provisions of paragraphs (8), (9) and (11) of the preceding Article apply mutatis mutandis if a Reporting Foreign Company submits an amended report in connection with the Foreign Company Report and Supplementary Documents that the company has submitted pursuant to Article 7, Article 9, paragraph (1) or Article 10, paragraph (1) as applied mutatis mutandis through the replacement of certain terms pursuant to paragraph (1).

(Suspension of the Validity of Notifications Made Within One Year After the Submission of an Annual Report Containing a False Statement)

Article 24-3 The provisions of Article 11 apply mutatis mutandis to any statement specified in Article 5, paragraph (1), Shelf Registration Statement, or Shelf Registration Supplements that a person that has submitted an Annual Report (including any amended report in connection with it; the same applies in the following Article) that contained a false statement with regard to a material particular, submits within one year from the day on which that person submits an amended report in connection with that false statement pursuant to Article 7 as applied mutatis mutandis pursuant to paragraph (1) of the preceding Article, or is ordered to submit an amended report in connection with that false statement pursuant to Article 10, paragraph (1) as applied mutatis mutandis pursuant to Article 24-2, paragraph (1).

(Compensatory Liability of the Officers, etc. of a Company Submitting an Annual Report That Contains a False Statement)

Article 24-4 The provisions of Article 22 apply mutatis mutandis if an Annual Report contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading. In this case, in Article 22, paragraph (1), the phrase "has acquired Securities issued by the person submitting the Registration Statement other than through a Public Offering or Secondary Distribution" is deemed to be replaced with "has acquired Securities issued by the person submitting the Registration Statement".

(Submission of a Confirmation Letter for the Content of Statements in an Annual Report)

- Article 24-4-2 (1) A company that is required to submit an Annual Report under Article 24, paragraph (1) (including a company that has submitted an Annual Report under Article 23-3, paragraph (4); the same applies in the following paragraph) and which is the Issuer of Securities set forth in Article 24, paragraph (1), item (i), or any other company specified by Cabinet Order, must submit a letter to the Prime Minister in which it confirms that the content of statements in the Annual Report is appropriate and in accordance with the Financial Instruments and Exchange Act and Related Regulations (hereinafter referred to as a "Confirmation Letter" in this and the following Articles), together with said Annual Report (or a Foreign Company Report, if the company submits a Foreign Company Report instead of the Annual Report, etc. set forth in Article 24, paragraph (8), pursuant to that paragraph), pursuant to the provisions of Cabinet Office Ordinance.
- (2) A company that is required to submit an Annual Report under Article 24, paragraph (1) may submit the Confirmation Letter provided for in the preceding paragraph voluntarily, even if it is not a company that is required to submit a Confirmation Letter together with an Annual Report (excluding companies as specified by Cabinet Order) pursuant to the preceding paragraph.
- (3) The provisions of the preceding two paragraphs apply mutatis mutandis to a company specified by Cabinet Order that is required to submit an Annual Report under Article 24, paragraph (1) as applied mutatis mutandis pursuant to Article 24, paragraph (5) (including a company that has submitted an Annual Report under Article 23-3, paragraph (4)).
- (4) The provisions of the preceding three paragraphs apply mutatis mutandis if an amended report is submitted pursuant to Article 7, Article 9, paragraph (1) and Article 10, paragraph (1) as applied mutatis mutandis through the replacement of certain terms pursuant to Article 24-2, paragraph (1). The necessary technical replacement of terms for such a case is specified by Cabinet Order.
- (5) The provisions of Article 6 apply mutatis mutandis if a Confirmation Letter is submitted pursuant to paragraph (1) or (2) (including as applied mutatis mutandis pursuant to paragraph (3) (including as applied mutatis mutandis pursuant to the preceding paragraph) or the preceding paragraph; hereinafter the same applies in this Article). The necessary technical replacement of terms for such a case is specified by Cabinet Order.
- (6) The provisions of Article 24, paragraphs (8), (9) and (11) to (13) inclusive apply mutatis mutandis if a Reporting Foreign Company submits a Confirmation Letter pursuant to paragraph (1) or (2) of this Article (limited to

if a Reporting Foreign Company submits a Foreign Company Report). In this case, in Article 24, paragraph (8), the phrase "a foreign company that is required to submit an Annual Report pursuant to paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (5); hereinafter the same applies in this paragraph to paragraph (13) inclusive) (including a foreign company that has submitted an Annual Report pursuant to Article 23-3, paragraph (4); hereinafter referred to as a 'Reporting Foreign Company')" is deemed to be replaced with "a foreign company that is required to submit an Annual Report pursuant to paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (5); hereinafter the same applies in this paragraph to paragraph (13) inclusive)", the phrase "an Annual Report under paragraph (1) and the documents are required to accompany it pursuant to paragraph (6) (hereinafter collectively referred to as an 'Annual Report, etc.' in this Article)" is deemed to be replaced with "a Confirmation Letter under Article 24-4-2, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (3) (including as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (4)) or Article 24-4-2, paragraph (4))", and the phrase "similar to an Annual Report, etc., but that has been prepared in English and disclosed in a foreign state (meaning that it is made available for public inspection in the relevant foreign state based on the laws and regulations of that state (including the rules provided by the operator of a foreign Financial Instruments Market or other person specified by Cabinet Office Ordinance); the same applies in Article 24-4-7, paragraph (6) and Article 24-5, paragraph (7))" is deemed to be replaced with "in which it has stated the particulars that are required to be stated in a Confirmation Letter"; in Article 24, paragraph (9), the phrase "documents stating the particulars not stated in the Foreign Company Report that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors, and other" is deemed to be replaced with "other"; in Article 24, paragraph (11), the term "an Annual Report, etc." is deemed to be replaced with "a Confirmation Letter under Article 24-4-2, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (3) (including as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (4)) or Article 24-4-2, paragraph (4))"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(Submission of an Amended Confirmation Letter)

Article 24-4-3 (1) The provisions of Article 7, Article 9, paragraph (1), and Article 10, paragraph (1) apply mutatis mutandis to a Confirmation Letter. In this case, in Article 7, the phrase "If, on or after the day on which a notification under Article 4, paragraphs (1) to (3) inclusive is filed and before the day on

which that notification comes into effect, a material particular that is required to be stated in a statement or other document under Article 5, paragraph (1) or paragraph (6) changes" is deemed to be replaced with "If a material particular that is required to be stated in a Confirmation Letter changes", the phrase "the person filing the notification" is deemed to be replaced with "the Person Submitting the Confirmation Letter", and the term "amended statement" is deemed to be replaced with "amended Confirmation Letter"; in Article 9, paragraph (1), the phrase "the person that submitted it" is deemed to be replaced with "the Person Submitting the Confirmation Letter" and the term "amended statement" is deemed to be replaced with "amended Confirmation Letter"; in Article 10, paragraph (1)), the phrase "the person submitting the Registration Statement" is deemed to be replaced with "the Person Submitting the Confirmation Letter" and the phrase "to submit an amended statement, and if the Prime Minister finds it to be necessary, the Prime Minister may order the suspension of the validity of a notification under Article 4, paragraphs (1) to (3) inclusive" is deemed to be replaced with "to submit an amended Confirmation Letter"; and any other necessary technical replacement of terms is specified by Cabinet Order.

- (2) The provisions of Article 6 apply mutatis mutandis if an amended Confirmation Letter is submitted for a Confirmation Letter pursuant to Article 7, Article 9, paragraph (1), or Article 10, paragraph (1), as applied mutatis mutandis pursuant to the preceding paragraph. The necessary technical replacement of terms for such a case is specified by Cabinet Order.
- (3) The provisions of Article 24, paragraphs (8), (9), and (11) apply mutatis mutandis if an amended Confirmation Letter is submitted for a Confirmation Letter that a foreign company has submitted pursuant to Article 7, Article 9, paragraph (1), or Article 10, paragraph (1), as applied mutatis mutandis through the replacement of certain terms pursuant to paragraph (1). The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Evaluation of the System for Ensuring the Appropriateness of Documents and Other Information Related to Financial Accounting)

Article 24-4-4 (1) For each business year, a company required to submit an Annual Report under Article 24, paragraph (1) (including one that has submitted an Annual Report under Article 23-3, paragraph (4); the same applies in the following paragraph) which is the Issuer of Securities set forth in Article 24, paragraph (1), item (i) or which is any other company specified by Cabinet Order, shall submit a report to the Prime Minister in which the system specified by Cabinet Office Ordinance as necessary for ensuring the appropriateness of documents and other information related to the financial

accounting of the corporate group to which the company belongs and of the company is evaluated pursuant to the provisions of Cabinet Office Ordinance (hereinafter referred to as an "Internal Control Report"), together with its Annual Report (or a Foreign Company Report, if the company submits a Foreign Company Report instead of the Annual Report, etc. set forth in Article 24, paragraph (8), pursuant to that paragraph), pursuant to the provisions of Cabinet Office Ordinance.

- (2) A company that is required to submit an Annual Report under Article 24, paragraph (1) but that is not required to submit an Internal Control Report together with an Annual Report pursuant to the preceding paragraph (except a company specified by Cabinet Order), may voluntarily submit the Internal Control Report provided for in the preceding paragraph.
- (3) The provisions of the preceding two paragraphs apply mutatis mutandis to a company specified by Cabinet Order that is required to submit an Annual Report under Article 24, paragraph (1) as applied mutatis mutandis pursuant to paragraph (5) of that Article (including a company that has submitted an Annual Report pursuant to Article 23-3, paragraph (4)). In this case, in paragraph (1), the phrase "or any other company specified by Cabinet Order" is deemed to be replaced with "or any other company specified by Cabinet Order (limited to one that is the Issuer of regulated Securities (meaning regulated Securities provided for in Article 5, paragraph (1); hereinafter the same applies in this paragraph))", the term "business year" is deemed to be replaced with "Specified Period (meaning the Specified Period provided for in Article 24, paragraph (1) as applied mutatis mutandis pursuant to Article 24, paragraph (5)) designated for the regulated Securities", the phrase "of the corporate group to which the company belongs and of the company" is deemed to be replaced with "for assets connected with the asset management and other similar business conducted by the company"; and any other necessary technical replacement of terms is specified by Cabinet Order.
- (4) A document stating the particulars of the system specified by Cabinet Office Ordinance which is referred to in paragraph (1), and other documents that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors, must accompany an Internal Control Report.
- (5) The provisions of Article 6 apply mutatis mutandis if an Internal Control Report and accompanying documents are submitted pursuant to paragraph (1) or (2) (including as applied mutatis mutandis pursuant to paragraph (3); hereinafter the same applies in this Article) and the preceding paragraph. The necessary technical replacement of terms for such a case is specified by Cabinet Order.
- (6) The provisions of Article 24, paragraphs (8), (9), and (11) to (13) inclusive

apply mutatis mutandis if a Reporting Foreign Company submits the Internal Control Report under paragraph (1) or (2) of this Article (but only if the Reporting Foreign Company submits Foreign Company Reports). In this case, in Article 24, paragraph (8), the phrase "a foreign company that is required to submit an Annual Report pursuant to paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (5); hereinafter the same applies in this paragraph to paragraph (13) inclusive) (including a foreign company that has submitted an Annual Report pursuant to Article 23-3, paragraph (4); hereinafter referred to as a 'Reporting Foreign Company')" is deemed to be replaced with "a foreign company that is required to submit an Annual Report pursuant to paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (5); hereinafter the same applies in this paragraph to paragraph (13) inclusive)", the phrase "an Annual Report under paragraph (1) and the documents that are required to accompany it pursuant to paragraph (6) (hereinafter collectively referred to as an "Annual Report, etc." in this Article)" is deemed to be replaced with "an Internal Control Report under Article 24-4-4, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 24-4-4, paragraph (3)) and documents that are required to accompany it pursuant to Article 24-4-4, paragraph (4) (hereinafter collectively referred to as an 'Internal Control Report, etc.')

(Submission of an Amended Internal Control Report)

Article 24-4-5 (1) The provisions of Article 7, Article 9, paragraph (1), and Article 10, paragraph (1) apply mutatis mutandis to an Internal Control Report and accompanying documents. In this case, in Article 7, the phrase "If, on or after the day on which a notification under Article 4, paragraphs (1) to (3)

inclusive is filed and before the day on which that notification comes into effect, a material particular that is required to be stated in a statement or other document under Article 5, paragraph (1) or paragraph (6) changes" is deemed to be replaced with "If a material particular that is required to be stated in an Internal Control Report or accompanying document changes", the phrase "the person filing the notification" is deemed to be replaced with "the person submitting the Internal Control Report", and the term "amended statement" is deemed to be replaced with "amended report"; in Article 9, paragraph (1), the phrase "the person that submitted it" is deemed to be replaced with "the person that submitted the Internal Control Report" and the term "amended statement" is deemed to be replaced with "amended report"; in Article 10, paragraph (1)), the phrase "the person submitting the Registration Statement" is deemed to be replaced with "the person submitting the Internal Control Report" and the phrase "to submit an amended statement, and if the Prime Minister finds it to be necessary, the Prime Minister may order the suspension of the validity of a notification under Article 4, paragraphs (1) to (3) inclusive" is deemed to be replaced with "to submit an amended report"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(2) The provisions of Article 6 apply mutatis mutandis if an amended report is submitted pursuant to Article 7, Article 9, paragraph (1) and Article 10, paragraph (1) as applied mutatis mutandis pursuant to the preceding paragraph in connection with an Internal Control Report or accompanying document. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(3) The provisions of Article 24, paragraphs (8), (9), and (11) apply mutatis mutandis if an amended report is submitted in connection with an Internal Control Report that has been submitted by a foreign company pursuant to Article 7, Article 9, paragraph (1), or Article 10, paragraph (1) as applied mutatis mutandis through the replacement of certain terms pursuant to paragraph (1). The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Mutatis Mutandis Application of Provisions on Compensatory Liability)

Article 24-4-6 The provisions of Article 22 apply mutatis mutandis if an Internal Control Report (including any accompanying document) contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading. In this case, in Article 22, paragraph (1), the phrase "a person that, without knowing that the statement is false or has been omitted, acquires Securities issued by the person submitting the Registration Statement other than through a Public Offering or

Secondary Distribution" is deemed to be replaced with "a person that, without knowing that the statement is false or has been omitted, acquires Securities issued by the person submitting the Internal Control Report (including any amended report in connection with this)", and any other necessary technical replacement of terms is specified by Cabinet Order.

(Submission of Quarterly Reports)

- Article 24-4-7 (1) For each three-month period of the business year if the business year is longer than three months (excluding periods specified by Cabinet Order; the same applies hereinafter), a company required to submit an Annual Report set forth in Article 24, paragraph (1) (including a company which submits Annual Reports under Article 23-3, paragraph (4); the same applies in the following paragraph), which is the Issuer of Securities set forth in Article 24, paragraph (1), item (i) or which is any other company specified by Cabinet Order (hereinafter, such a company is referred to as a "Listed Company, etc." in this paragraph and the following paragraph) shall submit a report (hereinafter referred to as a "Quarterly Report") stating the financial condition of the corporate group to which the company belongs and other particulars that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors (hereinafter referred to as the "Particulars for Inclusion in a Quarterly Report" in this paragraph) to the Prime Minister within the period designated by Cabinet Order but not exceeding 45 days after the three-month period (if there is a compelling reason that the company cannot submit it within such a period, within a period approved in advance by the Prime Minister pursuant to the provisions of Cabinet Office Ordinance). In this, a Listed Company, etc. conducting business specified by Cabinet Office Ordinance shall submit a Quarterly Report stating, in addition to the Particulars for Inclusion in a Quarterly Report, the financial condition of the company and other particulars that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors to the Prime Minister within the period specified by Cabinet Order but not exceeding 60 days after the three-month period (if there is a compelling reason that the company cannot submit it within such a period, within a period approved in advance by the Prime Minister pursuant to the provisions of Cabinet Office Ordinance).
- (2) A company (other than one specified by Cabinet Order) other than a Listed Company, etc. which is required to submit an Annual Report set forth in Article 24, paragraph (1) may voluntarily submit Quarterly Reports.
- (3) The provisions of the preceding two paragraphs apply mutatis mutandis to a company specified by Cabinet Order which is required to submit an Annual Report under Article 24, paragraph (1) as applied mutatis mutandis pursuant

to paragraph (5) of that Article (including a company that has submitted an Annual Report under Article 23-3, paragraph (4)). In this case, in paragraph (1), the phrase "specified by Cabinet Order ("is deemed to be replaced with "specified by Cabinet Order (limited to the Issuer of regulated Securities (meaning regulated Securities provided for in Article 5, paragraph (1); hereinafter the same applies in this paragraph);", the phrase "if the business year" is deemed to be replaced with "if the Specified Period (meaning a Specified Period provided for in Article 24, paragraph (1) as applied mutatis mutandis pursuant to Article 24, paragraph (5); hereinafter the same applies in this paragraph) designated for the Securities", the phrase "of the business years" is deemed to be replaced with "of the Specified Period", the phrase "the corporate group to which the company belongs" is deemed to be replaced with "asset management and other similar business conducted by the company", and the phrase "financial condition of the company" is deemed to be replaced with "asset accounting in connection with asset management and other similar business conducted by the company"; and any other necessary technical replacement of terms is specified by Cabinet Order.

- (4) The provisions of Articles 7, Article 9, paragraph (1), and Article 10, paragraph (1) apply mutatis mutandis to Quarterly Reports, and Article 22 applies mutatis mutandis if a Quarterly Report or the related amended report contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading. In this case, in Article 7, the phrase "If, on or after the day on which a notification under Article 4, paragraphs (1) to (3) inclusive is filed and before the day on which that notification comes into effect, a material particular that is required to be stated in a statement or other document under Article 5, paragraph (1) or paragraph (6) changes" is deemed to be replaced with "If a material particular that is required to be stated in a Quarterly Report (meaning a Quarterly Report set forth in Article 24-4-7, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 24-4-7, paragraph (3); hereinafter the same applies in this Article, Article 9, paragraph (1), Article 11, paragraph (1) and Article 22) changes", the phrase "the person filing the notification" is deemed to be replaced with "the person submitting the Quarterly Report", and the term "amended statement" is deemed to be replaced with "amended report"; in Article 9, paragraph (1), the phrase "the person that submitted it" is deemed to be replaced with "the person that submitted the Quarterly Report" and the term "amended statement" is deemed to be replaced with "amended report"; in Article 10, paragraph (1), the phrase "the person submitting the Registration Statement" is deemed to be replaced with "the person submitting the Quarterly Report" and the phrase "to submit an amended statement, and if the Prime

Minister finds it to be necessary, the Prime Minister may order the suspension of the validity of a notification under Article 4, paragraphs (1) to (3) inclusive" is deemed to be replaced with "to submit an amended report"; in Article 22, paragraph (1), the phrase "a person that, without knowing that the statement is false or has been omitted, acquires Securities issued by the person submitting the Registration Statement other than through a Public Offering or Secondary Distribution" is deemed to be replaced with "a person that, without knowing that the statement is false or has been omitted, acquires Securities issued by the person submitting the Quarterly Report and any amended report"; in Article 22, paragraph (2), the phrase "the preceding paragraph" is deemed to be replaced with "the preceding paragraph as applied mutatis mutandis pursuant to Article 24-4-7, paragraph (4)"; and any other necessary technical replacement of terms is specified by Cabinet Order.

- (5) The provisions of Article 6 apply mutatis mutandis if a Quarterly Report is submitted pursuant to paragraph (1) or (2) (including as applied mutatis mutandis pursuant to paragraph (3); the same applies in the following paragraph to paragraph (11) inclusive) or if an amended report is submitted in connection with that Report pursuant to the provisions of Article 7, Article 9, paragraph (1) or Article 10, paragraph (1) as applied mutatis mutandis pursuant to the preceding paragraph. The necessary technical replacement of terms for such a case is specified by Cabinet Order.
- (6) In a case that is specified by Cabinet Office Ordinance as one in which this does not damage the public interest or result in insufficient investor protection, instead of the Quarterly Report under paragraph (1), a Reporting Foreign Company that is required to submit a Quarterly Report pursuant to paragraph (1) (including a Reporting Foreign Company and that submits a Quarterly Report pursuant to paragraph (2); hereinafter the same applies in this Article) may submit a document that is similar to a Quarterly Report, but that has been prepared in English and disclosed in a foreign state (such a document is hereinafter referred to as a "Foreign Company Quarterly Report" in this Article).
- (7) A Japanese translation of the summary of the particulars stated in a Foreign Company Quarterly Report that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors, as well as the documents stating the particulars not stated in the Foreign Company Quarterly Report that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors and other documents specified by Cabinet Office Ordinance (such documents are hereinafter collectively referred to as "Supplementary Documents" in this Article) must accompany the Foreign Company Quarterly Report, pursuant to the provisions of Cabinet Office

Ordinance.

- (8) If a Reporting Foreign Company submits a Foreign Company Quarterly Report and Supplementary Documents pursuant to the preceding two paragraphs, the Foreign Company Quarterly Report and Supplementary Documents are deemed to be a Quarterly Report, the submission of the former is deemed to be the submission of the latter, and the provisions of the Financial Instruments and Exchange Act and Related Regulations apply.
- (9) If the Prime Minister finds that a Reporting Foreign Company that submitted a Foreign Company Quarterly Report does not satisfy the requirements for being allowed to submit the Foreign Company Quarterly Report referred to in paragraph (6), the Prime Minister must notify the Reporting Foreign Company of this. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.
- (10) Notwithstanding the provisions of paragraph (1), if a Reporting Foreign Company receives a notice under the preceding paragraph, it must submit a Quarterly Report under paragraph (1) within the period that is specified by Cabinet Order as necessary and appropriate in the public interest or for the protection of investors, with the day on which the notice is made as the first day for the calculation of that period.
- (11) The provisions of paragraphs (6) to (8) inclusive apply mutatis mutandis if an amended report is submitted to amend a Foreign Company Quarterly Report that has been submitted by a Reporting Foreign Company pursuant to the provisions of Article 7, Article 9, paragraph (1), or Article 10, paragraph (1), as applied mutatis mutandis through the replacement of certain terms pursuant to paragraph (4), or to amend its Supplementary Documents. The necessary technical replacement of terms for such a case is specified by Cabinet Order.
- (12) If, pursuant to the provisions of Cabinet Office Ordinance, a company that is required to submit a Quarterly Report pursuant to paragraph (1) (limited to as applied mutatis mutandis pursuant to paragraph (3); hereinafter the same applies in this Article) (including a company that submits the Quarterly Report under paragraph (2) (limited to as applied mutatis mutandis pursuant to paragraph (3))) submits the documents stating a part of the particulars specified by Cabinet Office Ordinance under paragraph (1) (limited to documents prepared based on laws and regulations or the rules of a Financial Instruments Exchange (including anything specified by Cabinet Office Ordinance as being similar to such rules); such documents are hereinafter referred to as "Documents Substituted for Part of a Quarterly Report" in this paragraph and the following paragraph) together with a Quarterly Report to the Prime Minister, with regard to the application of paragraph (1) to a case in

which a company receives the acknowledgement of the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, as one whose doing so does not damage the public interest or result in insufficient investor protection, in paragraph (1), the phrase "other particulars that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors" is deemed to be replaced with "other particulars that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors (excluding particulars stated in Documents Substituted for Part of the Quarterly Report as defined in paragraph (12))".

(13) If Documents Substituted for Part of a Quarterly Report are submitted together with the Quarterly Report referred to in paragraph (1) as it applies through the replacement of certain terms pursuant to the preceding paragraph, the Documents Substituted for Part of the Quarterly Report are deemed to form a part of the Quarterly Report, the submission of the Documents Substituted for Part of the Quarterly Report is deemed to be the submission of the Documents Substituted for Part of the Quarterly Report as a part of the Quarterly Report, and the provisions of the Financial Instruments and Exchange Act and Related Regulations apply.

(Mutatis Mutandis Application of Provisions Concerning Confirmation Letters to Quarterly Reports)

Article 24-4-8 (1) The provisions of Article 24-4-2 apply mutatis mutandis if a Quarterly Report is submitted pursuant to paragraph (1) or (2) of the preceding Article (including as applied mutatis mutandis pursuant to Article 24-4-7, paragraph (3)) or if an amended report is submitted pursuant to Article 7, Article 9, paragraph (1), or Article 10, paragraph (1) as applied mutatis mutandis through the replacement of certain terms pursuant to Article 24-4-7, paragraph (4). In this case, in Article 24-4-2, paragraph (1), the phrase "the content of statements in the Annual Report" is deemed to be replaced with "the content of statements in the Quarterly Report (including any amended report in connection with this; hereinafter the same applies in this Article)", the phrase "Foreign Company Report instead of the Annual Report, etc." is deemed to be replaced with "Foreign Company Quarterly Report instead of the Quarterly Report", and the phrase "or a Foreign Company Report" is deemed to be replaced with "or a Foreign Company Quarterly Report"; in Article 24-4-2, paragraph (2), the phrase "together with an Annual Report" is deemed to be replaced with "together with a Quarterly Report"; in Article 24-4-2, paragraph (6) the phrase "a Confirmation Letter under Article 24-4-2, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (3) (including as applied mutatis mutandis pursuant to Article 24-4-2,

paragraph (4)) or Article 24-4-2, paragraph (4))" is deemed to be replaced with "a Confirmation Letter under Article 24-4-2, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (3) (including as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (4)) or Article 24-4-2, paragraph (4)) as applied mutatis mutandis through the replacement of certain terms pursuant to Article 24-4-8"; and any other necessary technical replacement of terms is specified by Cabinet Order.

- (2) The provisions of Article 24-4-3 apply mutatis mutandis if an amended Confirmation Letter is submitted for a Confirmation Letter that has been submitted pursuant to the preceding paragraph. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Submission of Semiannual Reports and Ad Hoc Reports)

Article 24-5 (1) If the business year of a company that is required to submit the Annual Report set forth in Article 24, paragraph (1) (including one that has submitted an Annual Report under Article 23-3, paragraph (4); the same applies in paragraph (4)) but that is not required to submit the Quarterly Report under Article 24-4-7, paragraph (1) (including one that has submitted the Quarterly Report under Article 24-4-7, paragraph (2); the same applies in paragraph (3)) is longer than six months, that company must submit, pursuant to the provisions of Cabinet Office Ordinance, a report for each business year stating financial condition of the corporate group to which it belongs and its own financial condition, other material particulars of the company's business, and other particulars that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors in connection with the first six months of the relevant business year (such a report is hereinafter referred to as a "Semiannual Report") to the Prime Minister within three months after the end of the first six months (if there is a compelling reason that the company cannot submit it within such period, within the period approved in advance by the Prime Minister pursuant to the provisions of Cabinet Office Ordinance).

- (2) Unless it falls under any of the categories of persons specified in the following items, a company submitting or seeking to submit an Annual Report under Article 24, paragraph (1) that states the particulars specified in paragraph (2) of that Article, may state the particulars set forth in the preceding paragraph that are specified by Cabinet Office Ordinance as being relevant to that company, instead of stating all of the particulars set forth in the preceding paragraph, in the Semiannual Report that it is required to submit pursuant to the preceding paragraph:

- (i) a person that has already submitted an Annual Report stating the particulars specified in the main clause of Article 24, paragraph (1) or a

- Semiannual Report stating the particulars specified in the preceding paragraph; and
- (ii) a person that has submitted or is required to submit a statement under Article 5, paragraph (1) stating the particulars set forth in Article 5, paragraph (1), item (ii) for a Public Offering or Secondary Distribution of Securities to which the main clause of Article 4, paragraph (1), the main clause of Article 4, paragraph (2), or the main clause of Article 4, paragraph (3) applies (excluding a person set forth in the preceding item).
- (3) The provisions of the preceding two paragraphs apply mutatis mutandis to a company that is required to submit the Annual Report under Article 24, paragraph (1) as applied mutatis mutandis pursuant to paragraph (5) of that Article (including a company that submits the Annual Report under Article 23-3, paragraph (4); the same applies in the following paragraph and paragraph (15)) but that is not required to submit the Quarterly Report under Article 24-4-7, paragraph (1) as applied mutatis mutandis pursuant to paragraph (3) of that Article. In this case, in paragraph (1), the phrase "of a company that is required" is deemed to be replaced with "of a company (limited to the Issuer of regulated Securities (meaning regulated Securities as defined in Article 5, paragraph (1); hereinafter the same applies in this paragraph and the following paragraph)) that is required", the term "the business year" is deemed to be replaced with "the Specified Period (meaning a Specified Period provided for in Article 24, paragraph (1) as applied mutatis mutandis pursuant to paragraph (5) of that Article; hereinafter the same applies in this paragraph) designated for the regulated Securities", the phrase "for each business year" is deemed to be replaced with "for each Specified Period", the phrase "the relevant business year" is deemed to be replaced with "the relevant Specified Period", and the phrase "financial condition of the corporate group to which it belongs and its own financial condition, other material particulars of the company's business" is deemed to be replaced with "asset accounting in connection with asset management and other similar business conducted by the company, other material particulars of the company's assets"; and in paragraph (2), the term "of Securities" is deemed to be replaced with "of regulated Securities".
- (4) If a Public Offering or Secondary Distribution of Securities issued by a company that is required to submit the Annual Report under Article 24, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24, paragraph (5)) is conducted in a foreign state or in other cases that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors, said company, pursuant to the provisions of Cabinet Office Ordinance, must submit a report stating the details of it (hereinafter referred to as an "Ad Hoc Report") to the Prime

Minister without delay.

- (5) The provisions of Article 7, Article 9, paragraph (1), and Article 10, paragraph (1) apply mutatis mutandis to Semiannual Reports and Ad Hoc Reports, and the provisions of Article 22 apply mutatis mutandis if a Semiannual Report, Ad Hoc Report, or any amended report in connection with either of these contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading. In this case, in Article 7, the phrase "If, on or after the day on which a notification under Article 4, paragraphs (1) to (3) inclusive is filed and before the day on which that notification comes into effect, a material particular that is required to be stated in a statement or other document under Article 5, paragraph (1) or paragraph (6) changes" is deemed to be replaced with "If a material particular that is required to be stated in a Semiannual Report (meaning a Semiannual Report as set forth in Article 24-5, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24-5, paragraph (3)); hereinafter the same applies in this Article, Article 9, paragraph (1), Article 10, paragraph (1), and Article 22) or an Ad Hoc Report (meaning an Ad Hoc Report as set forth in Article 24-5, paragraph (4); hereinafter the same applies in this Article, Article 9, paragraph (1), Article 10, paragraph (1), and Article 22) changes", the phrase "the person filing the notification" is deemed to be replaced with "the person submitting the Semiannual Report or Ad Hoc Report", and the term "amended statement" is deemed to be replaced with "amended report"; in Article 9, paragraph (1), the phrase "the person that submitted it" is deemed to be replaced with "the person that submitted the Semiannual Report or Ad Hoc Report" and the phrase "amended statement" is deemed to be replaced with "amended report"; in Article 10, paragraph (1), the phrase "the person submitting the Registration Statement" is deemed to be replaced with "the person submitting the Semiannual Report or Ad Hoc Report"; in Article 10, paragraph (1), the phrase "to submit an amended statement, and if the Prime Minister finds it to be necessary, the Prime Minister may order the suspension of the validity of a notification under Article 4, paragraphs (1) to (3) inclusive" is deemed to be replaced with "to submit an amended report"; in Article 22, paragraph (1), the phrase "a person that, without knowing that the statement is false or has been omitted, acquires Securities issued by the person submitting the Registration Statement other than through a Public Offering or Secondary Distribution" is deemed to be replaced with "a person that, without knowing that the statement is false or has been omitted, acquires Securities issued by the person submitting the Semiannual Report or Ad Hoc Report, or any amended report in connection with these"; and in Article 22, paragraph (2), the phrase "the preceding paragraph" is deemed to be replaced with "the

preceding paragraph as applied mutatis mutandis pursuant to Article 24-5, paragraph (5)".

- (6) The provisions of Article 6 apply mutatis mutandis if a Semiannual Report or Ad Hoc Report is submitted pursuant to paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (3); the same applies in the following paragraph to paragraph (12) inclusive) or paragraph (4) and an amended report is submitted in connection with it pursuant to the provisions of Article 7, Article 9, paragraph (1), or Article 10, paragraph (1), as applied mutatis mutandis pursuant to the preceding paragraph.
- (7) In a case that is specified by Cabinet Office Ordinance as one in which this does not damage the public interest or result in insufficient investor protection, instead of a Semiannual Report under paragraph (1), a Reporting Foreign Company that is required to submit a Semiannual Report pursuant to paragraph (1) may submit a document that is similar to a Semiannual Report, but that has been prepared in English and disclosed in a foreign state (such documents are hereinafter referred to as a "Foreign Company Semiannual Report" in this Article).
- (8) A Japanese translation of the summary of the particulars stated in a Foreign Company Semiannual Report that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors, as well as documents stating the particulars not stated in a Foreign Company Semiannual Report that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors, and other documents that are specified by Cabinet Office Ordinance (such documents are hereinafter collectively referred to as "Supplementary Documents" in this Article) must accompany a Foreign Company Semiannual Report, pursuant to the provisions of Cabinet Office Ordinance.
- (9) If a Reporting Foreign Company submits a Foreign Company Semiannual Report and Supplementary Documents pursuant to the preceding two paragraphs, the Foreign Company Semiannual Report and Supplementary Documents are deemed to be a Semiannual Report, the submission of the former is deemed to be the submission of the latter, and the provisions of the Financial Instruments and Exchange Act and Related Regulations apply.
- (10) If the Prime Minister finds that a Reporting Foreign Company that has submitted a Foreign Company Semiannual Report does not satisfy the requirements for being allowed to submit a Foreign Company Semiannual Report under paragraph (7), the Prime Minister must notify the Reporting Foreign Company of this. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.
- (11) Notwithstanding the provisions of paragraph (1), if a Reporting Foreign

Company receives a notice under the preceding paragraph, it must submit a Semiannual Report under paragraph (1) within the period that is specified by Cabinet Order as necessary and appropriate in the public interest or for the protection of investors, with the day on which the notice is made as the first day for the calculation of that period.

- (12) The provisions of paragraphs (7) to (9) inclusive apply mutatis mutandis if an amended report is submitted to amend a Foreign Company Semiannual Report and Supplementary Documents for it that has have submitted by a Reporting Foreign Company pursuant to Article 7, Article 9, paragraph (1), or Article 10, paragraph (1), as applied mutatis mutandis through the replacement of certain terms pursuant to paragraph (5).
- (13) If, pursuant to the provisions of Cabinet Office Ordinance, a company that is required to submit the Semiannual Report under paragraph (1) (limited to as applied mutatis mutandis pursuant to paragraph (3); hereinafter the same applies in this paragraph and following paragraph) submits the documents stating a part of the particulars specified by Cabinet Office Ordinance under paragraph (1) (limited to documents prepared based on laws and regulations or the rules of a Financial Instruments Exchange (including anything specified by Cabinet Office Ordinance as being similar to such rules); such documents are hereinafter referred to as "Documents Substituted for Part of a Semiannual Report" in this paragraph and the following paragraph) together with a Semiannual Report to the Prime Minister, with regard to the application of paragraphs (1) and (2) to cases in which a company receives the acknowledgement of the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, as one whose doing so does not damage the public interest or result in insufficient investor protection, in paragraph (1), the phrase "other particulars that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors" is deemed to be replaced with "other particulars that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors (excluding particulars stated in Documents Substituted for Part of a Semiannual Report as defined in paragraph (13))" and in paragraph (2), the term "the particulars set forth in the preceding paragraph" is deemed to be replaced with "the particulars set forth in the preceding paragraph (excluding particulars stated in the Documents Substituted for Part of a Semiannual Report as defined in paragraph (13))".
- (14) If Documents Substituted for Part of a Semiannual Report are submitted together with the Semiannual Report referred to in paragraph (1) as it applies through the replacement of certain terms pursuant to the preceding paragraph, the Documents Substituted for Part of the Semiannual Report are deemed to form a part of the Semiannual Report, the submission of the Documents

Substituted for Part of the Semiannual Report is deemed to be the submission of the Documents Substituted for Part of the Semiannual Report as a part of the Semiannual Report, and the provisions of the Financial Instruments and Exchange Act and Related Regulations apply.

(15) If, pursuant to the provisions of Cabinet Office Ordinance, a company that is required to submit an Ad Hoc Report pursuant to paragraph (4) (limited to a company that is required to submit the Annual Report under Article 24, paragraph (1) as applied mutatis mutandis pursuant to Article 24, paragraph (5)) submits documents stating a part of the contents that are required to be stated in an Ad Hoc Report set forth in paragraph (4) (limited to documents prepared based on laws and regulations or rules of a Financial Instruments Exchange (including anything specified by Cabinet Office Ordinance as being similar to such rules); such documents are hereinafter referred to as "Documents Substituted for Part of an Ad Hoc Report" in this paragraph and the following paragraph) together with an Ad Hoc Report to the Prime Minister, with regard to the application of paragraph (4) to cases in which a company receives the acknowledgement of the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, as one whose doing so does not damage the public interest or result in insufficient investor protection, in paragraph (4), the phrase "a report stating the details of it" is deemed to be replaced with "a report stating the details of it (excluding the details stated in Documents Substituted for Part of an Ad Hoc Report as defined in paragraph (15))".

(16) If Documents Substituted for Part of an Ad Hoc Report are submitted together with the Ad Hoc Report referred to in paragraph (4) as it applies through the replacement of certain terms pursuant to the preceding paragraph, the Documents Substituted for Part of the Ad Hoc Report are deemed to form a part of the Ad Hoc Report, the submission of the Documents Substituted for Part of the Ad Hoc Report is deemed to be the submission of the Documents Substituted for Part of the Ad Hoc Report as a part of the Ad Hoc Report, and the provisions of the Financial Instruments and Exchange Act and Related Regulations apply.

(Mutatis Mutandis Application of Provisions on Confirmation Letters to Semiannual Reports)

Article 24-5-2 (1) The provisions of Article 24-4-2 apply mutatis mutandis if a Semiannual Report is submitted pursuant to paragraph (1) of the preceding Article (including as applied mutatis mutandis pursuant to Article 24-5, paragraph (3)) or if an amended report is submitted pursuant to Article 7, Article 9, paragraph (1), or Article 10, paragraph (1), as applied mutatis mutandis through the replacement of certain terms pursuant to Article 24-5, paragraph (5). In this case, in Article 24-4-2, paragraph (1), the phrase "a

Foreign Company Report" is deemed to be replaced with "a Foreign Company Semiannual Report", the phrase "Foreign Company Report instead of the Annual Report, etc." is deemed to be replaced with "Foreign Company Semiannual Report instead of the Semiannual Report", and the phrase "the content of statements in the Annual Report" is deemed to be replaced with "the content of statements in the Semiannual Report (including any amended report in connection with this; hereinafter the same applies in this Article)"; in Article 24-4-2, paragraph (2), the phrase "together with an Annual Report" is deemed to be replaced with "together with a Semiannual Report"; in Article 24-4-2, paragraph (6), the phrase "a Confirmation Letter under Article 24-4-2, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (3) (including as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (4)) or Article 24-4-2, paragraph (4))" is deemed to be replaced with "a Confirmation Letter under Article 24-4-2, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (3) (including as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (4)) or Article 24-4-2, paragraph (4)) as applied mutatis mutandis through the replacement of certain terms pursuant to Article 24-5-2"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(2) The provisions of Article 24-4-3 apply mutatis mutandis if an amended Confirmation Letter is submitted for a Confirmation Letter that has been submitted pursuant to the preceding paragraph. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Submission of Reports on Repurchase)

Article 24-6 (1) If a resolution of shareholders meeting or a resolution of board of directors set forth in Article 156, paragraph (1) of the Companies Act (including as it applies through the replacement of certain terms pursuant to Article 165, paragraph (3) of that Act) has been adopted, a company that has issued share certificates that are listed on a Financial Instruments Exchange, share certificates specified by Cabinet Order as having equivalent distribution statuses to share certificates listed on a Financial Instruments Exchange, or other Securities specified by Cabinet Order (hereinafter collectively referred to as "Listed Share Certificates, etc." in this Article, Articles 27-22-2 to 27-22-4 inclusive, and Article 167) must submit a report that, pursuant to the provisions of Cabinet Office Ordinance, states the particulars of the status of any repurchase of the Listed Share Certificates, etc. of which it is the Issuer, that it conducts based on the resolution of the shareholders or board of directors (hereinafter referred to as the "Shareholders, etc." in this paragraph), during each month from the month that includes the day on which the Shareholders, etc. resolution is adopted to the month that includes the day on

which the period set forth in Article 156, paragraph (1), item (iii) of that Act expires (each month is referred to as a "Reporting Month" in this paragraph) (including if no buyback is conducted) and other particulars that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors to the Prime Minister by the 15th day of the month following each Reporting Month.

- (2) The provisions of Article 7, Article 9, paragraph (1), and Article 10, paragraph (1) apply mutatis mutandis to a report set forth in the preceding paragraph (hereinafter referred to as a "Report on Repurchase"), and the provisions of Article 22 apply mutatis mutandis if a Report on Repurchase contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading. In this case, in Article 7, the phrase "If, on or after the day on which a notification under Article 4, paragraphs (1) to (3) inclusive is filed and before the day on which that notification comes into effect, a material particular that is required to be stated in a statement or other document under Article 5, paragraph (1) or paragraph (6) changes" is deemed to be replaced with "If a material particular that is required to be stated in a Report on Repurchase (meaning a report set forth in Article 24-6, paragraph (1); hereinafter the same applies in this Article, Article 9, paragraph (1), Article 10, paragraph (1), and Article 22) changes", the phrase "the person filing the notification" is deemed to be replaced with "the person submitting the Report on Repurchase", and the term "amended statement" is deemed to be replaced with "amended report"; in Article 9, paragraph (1) the phrase "the person that submitted it" is deemed to be replaced with "the person that submitted the Report on Repurchase" and the term "amended statement" is deemed to be replaced with "amended report"; in Article 10, paragraph (1), the phrase "the person submitting the Registration Statement" is deemed to be replaced with "the person submitting the Report on Repurchase" and the phrase "to submit an amended statement, and if the Prime Minister finds it to be necessary, the Prime Minister may order the suspension of the validity of a notification under Article 4, paragraphs (1) to (3) inclusive" is deemed to be replaced with "to submit an amended report"; in Article 22, paragraph (1), the phrase "persons set forth in Article 21, paragraph (1), items (i) and (iii)" is deemed to be replaced with "person that, at the time of submission of the Report on Repurchase, is an officer of the company that submitted that Report", and the phrase "a person that, without knowing that the statement is false or has been omitted, acquires Securities issued by the person submitting the Registration Statement other than through a Public Offering or Secondary Distribution" is deemed to be replaced with "a person that, without knowing that the statement is false or has been

omitted, acquires Securities issued by the person submitting the Report on Repurchase"; and in Article 22, paragraph (2), the phrase "Article 21, paragraph (2), items (i) and (ii)" is deemed to be replaced with "Article 21, paragraph (2), item (i)" and the phrase "the preceding paragraph" is deemed to be replaced with "the preceding paragraph as applied mutatis mutandis pursuant to Article 24-6, paragraph (2)".

- (3) The provisions of Article 6 apply mutatis mutandis if a Report on Repurchase is submitted pursuant to paragraph (1) and if an amended report is submitted in connection with a Report on Repurchase, pursuant to Article 7, Article 9, paragraph (1) or Article 10, paragraph (1) as applied mutatis mutandis pursuant to the preceding paragraph.

(Submission of a Parent Company, etc. Status Report)

Article 24-7 (1) A company that holds the majority of voting rights in a company that is required to submit an Annual Report pursuant to Article 24, paragraph (1) (but only one that is the Issuer of Securities set forth in Article 24, paragraph (1), item (i) or (ii); such a company is referred to as a "Subsidiary Company Submitting an Annual Report" in paragraph (4) of this Article, paragraph (5) of the following Article and Article 27-30-10), or which is otherwise specified by Cabinet Order as being closely related to a company that is required to submit an Annual Report (excluding a company that is required to submit an Annual Report pursuant to Article 24, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24, paragraph (5); the same applies in the items of paragraph (4) of this Article) (including a company that has submitted an Annual Report pursuant to Article 23-3, paragraph (4) or that is otherwise specified by Cabinet Office Ordinance); hereinafter, a company that holds the majority of voting rights in, or is otherwise closely related to, such a company, is referred to as a "Parent Company, etc." in this Article and paragraphs (2), (4) and (5) of the following Article) shall submit a report that, pursuant to the provisions of Cabinet Office Ordinance, states the particulars of persons that hold shares in the Parent Company, etc. and other particulars that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors, for each business year of the Parent Company, etc. (or for each period specified by Cabinet Office Ordinance, if the Parent Company, etc. is an Issuer of regulated Securities; hereinafter the same applies in this paragraph and the following paragraph) (hereinafter referred to as a "Parent Company, etc. Status Report") to the Prime Minister within three months after the end of each business year (or, if the Parent Company, etc. is a foreign company, within the period that is specified by Cabinet Order as necessary and appropriate in the public interest or for the protection of investors); provided, however, that this does not apply if

a company receives the acknowledgement of the Prime Minister, pursuant to the provisions of Cabinet Order, as a company whose non-submission of a Parent Company, etc. Status Report does not damage the public interest or result in insufficient investor protection.

- (2) If a company that is excluded from the application of the main clause of the preceding paragraph becomes a Parent Company, etc., the company that has become a Parent Company, etc. must submit a Parent Company, etc. Status Report to the Prime Minister without delay, pursuant to the provisions of Cabinet Office Ordinance, for the business year immediately prior to the business year that includes the day on which the company becomes a Parent Company, etc.; provided, however, that this does not apply if the company has received the acknowledgment of the Prime Minister, pursuant to the provisions of Cabinet Order, as a company whose non-submission of a Parent Company, etc. Status Report does not damage the public interest or result in insufficient investor protection.
- (3) The provisions of Article 7, Article 9, paragraph (1), and Article 10, paragraph (1) apply mutatis mutandis to a Parent Company, etc. Status Report. In this case, in Article 7, the phrase "If, on or after the day on which a notification under Article 4, paragraphs (1) to (3) inclusive is filed and before the day on which that notification comes into effect, a material particular that is required to be stated in a statement or other document under Article 5, paragraph (1) or paragraph (6) changes" is deemed to be replaced with "If a material particular that is required to be stated in a Parent Company, etc. Status Report (meaning a Parent Company, etc. Status Report as provided for in Article 24-7, paragraph (1); the same applies hereinafter) changes", the phrase "the person filing the notification" is deemed to be replaced with "the person submitting the Parent Company, etc. Status Report", and the term "amended statement" is deemed to be replaced with "amended report"; in Article 9, paragraph (1) the phrase "the person that submitted it" is deemed to be replaced with "the person submitting the Parent Company, etc. Status Report" and the term "amended statement" is deemed to be replaced with "amended report"; in Article 10, paragraph (1)), the phrase "the person submitting the Registration Statement" is deemed to be replaced with "the person submitting the Parent Company, etc. Status Report" and the phrase "to submit an amended statement, and if the Prime Minister finds it to be necessary, the Prime Minister may order the suspension of the validity of a notification under Article 4, paragraphs (1) to (3) inclusive" is deemed to be replaced with "to submit an amended report"; and any other necessary technical replacement of terms is specified by Cabinet Order.
- (4) A Parent Company, etc. that has submitted a Parent Company, etc. Status Report pursuant to the main clause of paragraph (1) or the main clause of

paragraph (2), or that has submitted an amended report in connection with a Parent Company, etc. Status Report pursuant to Article 7, Article 9, paragraph (1), or Article 10, paragraph (1), as applied mutatis mutandis pursuant to the preceding paragraph, shall send a copy of it to the Subsidiary Company Submitting Annual Reports without delay, and shall also submit a copy of it to the person specified in the relevant of following items for the category of Securities set forth in said item that were issued by the Subsidiary Company Submitting Annual Reports:

- (i) Securities set forth in Article 24, paragraph (1), item (i): the Financial Instruments Exchange referred to in Article 24, paragraph (1), item (i); or
- (ii) Securities set forth in Article 24, paragraph (1), item (ii): the Authorized Financial Instruments Business Association specified by Cabinet Order.

(5) The provisions of Article 24, paragraphs (8), (9), and (11) to (13) inclusive apply mutatis mutandis if a Parent Company, etc. that is a foreign company submits a Parent Company, etc. Status Report. In this case, in Article 24, paragraph (8), the phrase "a foreign company that is required to submit an Annual Report pursuant to paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (5); hereinafter the same applies in this paragraph to paragraph (13) inclusive) (including a foreign company that has submitted an Annual Report pursuant to Article 23-3, paragraph (4); hereinafter referred to as a 'Reporting Foreign Company')" is deemed to be replaced with "a Parent Company, etc. (meaning Parent Company, etc. as defined by Article 24-7, paragraph (1); hereinafter the same applies in this Article) which is a foreign company that is required to submit an Annual Report pursuant to paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (5); hereinafter the same applies in this paragraph to paragraph (13) inclusive)" and the phrase "similar to an Annual Report, etc., but that has been prepared in English and disclosed in a foreign state (meaning that it is made available for public inspection in the relevant foreign state based on the laws and regulations of that state (including the rules provided by the operator of a foreign Financial Instruments Market or other person specified by Cabinet Office Ordinance); the same applies in Article 24-4-7, paragraph (6) and Article 24-5, paragraph (7))" is deemed to be replaced with "in which it has stated the particulars that are required to be stated in the Parent Company, etc. Status Report"; in Article 24, paragraph (9), the phrase "documents stating the particulars not stated in the Foreign Company Report that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors, and other" is deemed to be replaced with "other"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(6) The provisions of the preceding paragraphs apply mutatis mutandis if the

Parent Company, etc. is a person other than a company. In this case, in paragraph (1), the phrase "A company that holds the majority of voting rights" is deemed to be replaced with "A person that is other than a company and that holds the majority of voting rights", the phrase "which is otherwise specified by Cabinet Order as being closely related to" is deemed to be replaced with "that is otherwise specified by Cabinet Order as being a person that is other than a company and that is closely related to", and the phrase "persons that hold shares in the Parent Company, etc." is deemed to be replaced with "equity investors in the Parent Company, etc. and other persons"; in paragraph (2), the term "company" is deemed to be replaced with "person that is other than a company and"; in the preceding paragraph the phrase "that is a foreign company" is deemed to be replaced with "that is a foreign person"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(Public Inspection of Registration Statements, etc.)

Article 25 (1) The Prime Minister shall make the documents set forth in each of the following items (hereinafter referred to as "Public Documents" in this Article and the following Article) available for public inspection pursuant to the provisions of Cabinet Office Ordinance, for the period specified in the relevant item from the day on which the Prime Minister receives the Public Document (or for an amended statement, Amended Shelf Registration Statement, amended report, or amended Confirmation Letter set forth in one of the following items, the period specified in the relevant item from the day on which the Prime Minister receives the statement and accompanying documents under Article 5, paragraphs (1) and (6), the statement and accompanying documents to which Article 5, paragraph (4) is applicable, or the Shelf Registration Statement and accompanying documents, Annual Report and accompanying documents, Confirmation Letter, Internal Control Report and accompanying documents, Quarterly Report, Semiannual Report, Ad Hoc Report, Report on Repurchase, or Parent Company, etc. Status Report subject to that amendment; and for a Confirmation Letter set forth in item (v) or (ix) (but only if the subject of the Confirmation Letter is an amended report connected with an Annual Report and accompanying documents, an amended report connected with a Quarterly Report, or an amended report connected with a Semiannual Report), the period specified in the relevant item from the day on which the Prime Minister receives the Annual Report and accompanying documents, Quarterly Report, or Semiannual Report that is subject to that amendment):

- (i) a statement and accompanying documents under Article 5, paragraphs (1) and (6), as well as any amended statement connected with them (excluding a statement and accompanying documents or amended statement connected

- with them, to which Article 5, paragraph (4) is applicable): five years;
  - (ii) a statement and accompanying documents, as well as any amended statement connected with them, to which Article 5, paragraph (4) is applicable: one year;
  - (iii) a Shelf Registration Statement and accompanying documents or Shelf Registration Supplements and accompanying documents, as well as any Amended Shelf Registration Statement connected with them: until the Shelf Registration Statement ceases to be effective;
  - (iv) an Annual Report and accompanying documents, as well as any amended report connected with them: five years;
  - (v) a Confirmation Letter under Article 24-4-2 and any amended Confirmation Letter connected with it: five years;
  - (vi) an Internal Control Report and accompanying documents, as well as any amended report connected with them: five years;
  - (vii) a Quarterly Report and any amended report connected with it: three years;
  - (viii) a Semiannual Report and any amended report connected with it: three years;
  - (ix) a Confirmation Letter under Article 24-4-2 as applied mutatis mutandis pursuant to Article 24-4-8 or Article 24-5-2, and any amended Confirmation Letter connected with it: three years;
  - (x) an Ad Hoc Report and any amended report connected with it: one year;
  - (xi) a Report on Repurchase and any amended report connected with it: one year; and
  - (xii) a Parent Company, etc. Status Report and any amended report connected with it: five years.
- (2) An Issuer of Securities that has submitted a document set forth in one of the items (i) to (xi) inclusive of the preceding paragraph, or an Issuer of Securities whose Parent Company, etc. has submitted the document set forth in item (xii) of the preceding paragraph, shall keep a copy of such document at its head office and principal branch offices, and make the document available for public inspection for the period from the day on which the document is submitted to the Prime Minister to the day on which the period specified in the relevant item of the preceding paragraph has elapsed, pursuant to the provisions of Cabinet Office Ordinance.
- (3) Pursuant to the provisions of Cabinet Office Ordinance, Financial Instruments Exchanges and the Authorized Financial Instruments Business Associations specified by Cabinet Order shall keep copies of the documents submitted pursuant to Article 6 (including as applied mutatis mutandis pursuant to Article 12; Article 23-12, paragraph (1); Article 24, paragraph (7); Article 24-2, paragraph (3); Article 24-4-2, paragraph (5) (including as applied

mutatis mutandis pursuant to Article 24-4-8, paragraph (1) and Article 24-5-2, paragraph (1)); Article 24-4-3, paragraph (2) (including as applied mutatis mutandis pursuant to Article 24-4-8, paragraph (2) and Article 24-5-2, paragraph (2)); Article 24-4-4, paragraph (5); Article 24-4-5, paragraph (2); Article 24-4-7, paragraph (5); Article 24-5, paragraph (6); and Article 24-6, paragraph (3); the same applies in paragraph (5)) and paragraph (4) of the preceding Article at their office, and make copies of the Public Documents available for public inspection for the period from the day on which the copies of these documents are submitted to the day on which the period specified in the relevant item of paragraph (1) has elapsed.

- (4) Notwithstanding the provisions of the preceding three paragraphs, if, due to a need to maintain the confidentiality of a trade secret, an Issuer of Securities that has submitted a document set forth in one of items (i) to (x) inclusive of paragraph (1), or a Parent Company, etc. that has submitted a document set forth in item (xii) of that paragraph, files a petition with the Prime Minister for a part of the documents referred to in the preceding three paragraphs not to be made available for public inspection and the Prime Minister approves it, that part of the documents is not to be made available for public inspection.
- (5) When an Issuer of Securities or Parent Company, etc. that has obtained the approval referred to in the preceding paragraph sends a copy of a Public Document to a Subsidiary Company Submitting Annual Reports or submits a copy of such documents to a Financial Instruments Exchange or to an Authorized Financial Instruments Business Association specified by Cabinet Order pursuant to Article 6 or paragraph (4) of the preceding Article, before sending or submitting the copy of such documents, it may remove or delete from them the part that, pursuant to the preceding paragraph, it has been decided will not be made available for public inspection.
- (6) Notwithstanding the provisions of paragraph (1), if the Prime Minister issues one of the following dispositions, the Prime Minister may decide that all or part of the Public Documents that are connected with the disposition are not to be made available for public inspection:
- (i) an order to submit an amended statement under the provisions of Article 9, paragraph (1) or Article 10, paragraph (1);
  - (ii) an order to submit an Amended Shelf Registration Statement under Article 23-9, paragraph (1) or Article 23-10, paragraph (1), or under Article 23-10, paragraph (1) as applied mutatis mutandis pursuant to Article 23-10, paragraph (5);
  - (iii) an order to submit an amended report under Article 9, paragraph (1) or Article 10, paragraph (1) as applied mutatis mutandis pursuant to Article 24-2, paragraph (1); Article 24-4-5, paragraph (1); Article 24-4-7, paragraph (4); Article 24-5, paragraph (5); Article 24-6, paragraph (2); or paragraph (3) of

- the preceding Article (including as applied mutatis mutandis pursuant to paragraph (6) of that Article); or
- (iv) an order to submit an amended Confirmation Letter under Article 9, paragraph (1) or Article 10, paragraph (1) as applied mutatis mutandis pursuant to Article 24-4-3, paragraph (1).
- (7) In the case referred to in the preceding paragraph, the Prime Minister is to notify a person that makes copies of Public Documents available for public inspection pursuant to paragraph (2) (or the person submitting such Public Documents and the person that makes copies of them available for public inspection, if the Public Documents comprise a Parent Company, etc. Status Report or an amended report in connection with one; such a person is referred to as the "Submitter, etc." in the following paragraph), as well as the Financial Instruments Exchange or the Authorized Financial Instruments Business Association specified by Cabinet Order which is referred to in paragraph (3), which makes copies of those Public Documents available for public inspection pursuant to the provisions of paragraph (3), that the Prime Minister has decided that all or part of those Public Documents will not be made available for public inspection.
- (8) If the Submitter, etc. or a Financial Instruments Exchange or Authorized Financial Instruments Business Association has been notified by the Prime Minister pursuant to the provisions of the preceding paragraph, the provisions of paragraphs (2) and (3) do not apply thereafter to the copies of the Public Documents for which the notice was made.

(Collection of Reports and Inspection of a Person Submitting a Registration Statement, etc.)

Article 26 Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a person that has submitted Public Documents, a person that is found to be required to submit such documents, an Underwriter of Securities, or any other concerned party or witnesses, to submit reports or materials that should serve as a reference, and may have the relevant officials inspect that person's books and documents or any other articles.

(Mutatis Mutandis Application of Provisions for an Issuer That Is Not a Company)

Article 27 The provisions of Article 2-2; Articles 5 to 13 inclusive; Articles 15 to 24-5-2 inclusive; and Article 24-7 to the preceding Article inclusive apply mutatis mutandis if the Issuer is a person other than a company (with regard to the mutatis mutandis application of Article 24, paragraphs (8) to (13) inclusive; Article 24-2, paragraph (4); Article 24-4-2, paragraph (6) (including

as applied mutatis mutandis pursuant to Article 24-4-8, paragraph (1) and Article 24-5-2, paragraph (1)); Article 24-4-3, paragraph (3); Article 24-4-4, paragraph (6); Article 24-4-5, paragraph (3); Article 24-4-7, paragraphs (6) to (11) inclusive; and Article 24-5, paragraphs (7) to (12) inclusive, this is limited to if the Issuer is a foreign person). In this case, in Article 24, paragraph (8), the phrase "a foreign company that is required to submit" is deemed to be replaced with "a foreign person other than a company which is required to submit"; in Article 24, paragraphs (8) and (10) to (13) inclusive; Article 24-2, paragraph (4); Article 24-4-7, paragraphs (6) and (8) to (11) inclusive; and Article 24-5, paragraphs (7) and (9) to (12) inclusive, the phrase "Reporting Foreign Company" is deemed to be replaced with "Reporting Foreign Person"; and any other necessary technical replacement of terms or other necessary particulars relevant to the application of these provisions is specified by Cabinet Order.

## **Chapter II-2 Disclosure in a Tender Offer**

### **Section 1 Tender Offers for Share Certificates, etc. by Persons Other than the Issuer**

(Tender Offers for Share Certificates, etc. by Persons Other than the Issuer)  
Article 27-2 (1) Any purchase, etc. of share certificates, corporate bond certificates with share options, or other Securities specified by Cabinet Order (hereinafter collectively referred to as "Share Certificates, etc." in this Chapter and Article 27-30-11 (excluding Article 27-30-11, paragraph (4))) (a purchase, etc. means a purchase or other acquisition for compensation of Share Certificates, etc., and includes acts specified by Cabinet Order as being similar to this; hereinafter the same applies in this Section) whose Issuer is required to submit an Annual Report, or of the Share Certificates, etc. of an Issuer of Specified Listed Securities (including those specified by Cabinet Order as having equivalent distribution statuses to these, and limited to Share Certificates, etc.), which is effected by a person other than the Issuer and which falls under any of the categories set forth in the following items, must be effected by means of a Tender Offer; provided, however, that this does not apply to a purchase, etc. of Share Certificates, etc. that the holder of share options effects by exercising those share options, to a purchase, etc. of Share Certificates, etc. that the person effecting the purchase, etc. makes from its Specially Related Party (limited to a person set forth in paragraph (7), item (i) and specified by Cabinet Office Ordinance), or to any other purchase, etc. of Share Certificates, etc. that is specified by Cabinet Order:

- (i) a purchase, etc. of Share Certificates, etc. outside a Financial Instruments Exchange Market (excluding a purchase, etc. of Share Certificates, etc.

- effected through a transaction specified by Cabinet Order as being equivalent to the purchase and sale, etc. of Securities on a Financial Instruments Exchange Market and excluding a purchase, etc. of Share Certificates, etc. that is specified by Cabinet Order as a purchase, etc. made from an extremely small number of persons), if after that purchase, etc. the Ownership Ratio of Share Certificates, etc., in terms of the Share Certificates, etc. that the relevant person holds (including cases specified by Cabinet Order as equivalent to holding them; hereinafter the same applies in this Section) (or, if the person has any Specially Related Parties (other than Specially Related Parties specified in paragraph (7), item (i) and specified by Cabinet Office Ordinance), the Ownership Ratio of Share Certificates, etc. calculated by adding the Ownership Ratio of Share Certificates, etc. of the Specially Related Parties to that of the person; hereinafter the same applies in this paragraph), exceeds five percent;
- (ii) a purchase, etc. of Share Certificates, etc. outside a Financial Instruments Exchange Market (excluding a purchase, etc. of Share Certificates, etc. effected through a transaction specified by Cabinet Order as being equivalent to the purchase and sale, etc. of Securities on a Financial Instruments Exchange Market; the same applies in item (iv)) which falls under the category of a purchase, etc. of Share Certificates, etc. that is specified by Cabinet Order as a purchase, etc. made from an extremely small number of persons, if after that purchase, etc. the Ownership Ratio of Share Certificates, etc., in terms of the Share Certificates, etc. that the relevant person holds, exceeds one third;
- (iii) a purchase, etc. of Share Certificates, etc. through a purchase and sale, etc. of Securities on a Financial Instruments Exchange Market which is specified by the Prime Minister as being a purchase and sale, etc. of Securities based on a method other than an auction method (such a purchase and sale, etc. of Securities is hereinafter referred to as a "Specified Purchase and Sale, etc." in this paragraph), if after that purchase, etc. the Ownership Ratio of Share Certificates, etc., in terms of the Share Certificates, etc. that the relevant person holds, exceeds one third;
- (iv) a purchase, etc. of Share Certificates, etc., if Share Certificates, etc. in excess of the proportion specified by Cabinet Order are acquired during the period of not more than six months that is specified by Cabinet Order, through that purchase, etc. of Share Certificates, etc. or through the acquisition of a new issue (meaning the acquisition of Share Certificates, etc. newly issued by their Issuer; hereinafter the same applies in this item) (if the acquisition is effected through a purchase, etc. of Share Certificates, etc., this is limited to an acquisition through a purchase, etc. of Share Certificates, etc. in excess of the proportion specified by Cabinet Order that is effected

- through a Specified Purchase and Sale, etc. or that is effected outside a Financial Instruments Exchange Market (excluding one effected through a Tender Offer)), and if after the purchase, etc. or acquisition, the Ownership Ratio of Share Certificates, etc., in terms of the Share Certificates, etc. that the relevant person holds, exceeds one third (other than purchases, etc. set forth in the preceding three items);
- (v) a purchase, etc. of Share Certificates, etc., if a Tender Offer is underway for those Share Certificates, etc., and a person other than the Issuer of the Share Certificates, etc. effects a purchase, etc. of them in excess of the proportion specified by Cabinet Order during the period of not more than six months that is specified by Cabinet Order (but only if the Ownership Ratio of Share Certificates, etc. in terms of the Share Certificates, etc. that the person holds, exceeds one third) (other than purchases, etc. set forth in the preceding items); and
  - (vi) any other purchase, etc. of Share Certificates, etc. specified by Cabinet Order as being equivalent to a purchase, etc. of Share Certificates, etc. set forth in any of the preceding items.
- (2) A purchase, etc. of Share Certificates, etc. through a Tender Offer, as specified in the main clause of the preceding paragraph, must be effected after a purchase, etc. period is set that is within the scope of the period specified by Cabinet Order.
- (3) If a purchase, etc. of Share Certificates, etc. is effected through a Tender Offer, as provided for in the main clause of paragraph (1), the purchase, etc. price (or, for anything other than a purchase, etc., the thing that is specified by Cabinet Order as being equivalent to the purchase, etc. price; hereinafter the same applies in this Section) must be based on a single set of conditions, pursuant to the provisions of Cabinet Order.
- (4) If a purchase, etc. of Share Certificates, etc. is effected through a Tender Offer, as provided in the main clause of paragraph (1), a Financial Services Provider (limited to one engaged in Type I Financial Instruments Business as defined in Article 28, paragraph (1); the same applies in Article 27-12, paragraph (3)) or a bank, etc. (meaning a bank, Cooperative Financial Institution, or other financial institution specified by Cabinet Order; the same applies in Article 27-12, paragraph (3)) must be made to manage the Share Certificates, etc., effect payment for the purchase, etc., and conduct other affairs specified by Cabinet Order.
- (5) If a purchase, etc. of Share Certificates, etc. is effected through a Tender Offer, as provided in the main clause of paragraph (1), it must be in accordance with the conditions and methods specified by Cabinet Order, in addition to what is prescribed in the preceding three paragraphs and other provisions of this Section.

- (6) As used in this Article, effecting a "Tender Offer" means offering to effect purchase, etc. of Share Certificates, etc. or soliciting offers to sell, etc. them (meaning effecting a sale or other transfer for consideration; hereinafter the same applies in this Section) from many and unspecified persons through a public notice, and then effecting the purchase, etc. of Share Certificates, etc. outside of a Financial Instruments Exchange Market.
- (7) The term "Specially Related Party" as used in paragraph (1) means one of the following persons:
- (i) a person with a shareholding relationship, familial relationship, or other special relationship specified by Cabinet Order to the person effecting the purchase, etc. of Share Certificates, etc.; and
  - (ii) a person with which a person effecting a purchase, etc. of Share Certificates, etc. has agreed to jointly acquire or transfer the Share Certificates, etc. or to jointly exercise voting rights or other rights as shareholders in the Issuer of the Share Certificates, etc., or to transfer or acquire the Share Certificates, etc. to or from each other after the purchase, etc. of the Share Certificates, etc.
- (8) The term "Ownership Ratio of Share Certificates, etc." as used in paragraph (1) means either of the following:
- (i) in terms of the person effecting a purchase, etc. of Share Certificates, etc., the ratio arrived at, pursuant to the provisions of Cabinet Office Ordinance, when the total number of voting rights (meaning the number of voting rights represented by shares calculated pursuant to the provisions of Cabinet Office Ordinance, for share certificates, or the number of voting rights specified by Cabinet Office Ordinance, for Securities other than share certificates; hereinafter the same applies in this paragraph) with respect to the Share Certificates, etc. that the person holds (excluding those that are specified by Cabinet Office Ordinance in consideration of the manner in which they are held or other circumstances; hereinafter the same applies in this paragraph), are divided by the number arrived at when the total number of voting rights issued by the Issuer is added to the number of voting rights with respect to corporate bond certificates with share options and other Securities specified by Cabinet Order issued by the Issuer and held by that person and Specially Related Parties of that person; or
  - (ii) for Specially Related Parties as defined in the preceding paragraph (excluding persons that fall under the category specified in item (ii) of the preceding paragraph and that purchase, etc. any Share Certificates, etc. issued by the Issuer of the Share Certificates, etc.), the rate arrived at, pursuant to the provisions of Cabinet Office Ordinance, when the number of voting rights with respect to the Share Certificates, etc. that the party holds, is divided by the number arrived at when the total of the number of voting

rights issued by the Issuer is added to the number of voting rights with respect to corporate bond certificates with share options and other Securities specified by Cabinet Order issued by the Issuer and held by that party and the person effecting a purchase, etc. of Share Certificates, etc. that is set forth in the preceding item.

(Public Notice of the Commencement of a Tender Offer and Submission of a Tender Offer Statement)

Article 27-3 (1) A person that, pursuant to the main clause of paragraph (1) of the preceding Article, is required to effect any purchase, etc. of Share Certificates, etc. through a Tender Offer as prescribed in Article 27-2, paragraph (1) (hereinafter referred to as a "Tender Offer" in this Section) shall, pursuant to the provisions of Cabinet Order, issue public notice of the purpose of the Tender Offer, the purchase, etc. price, the number of Share Certificates, etc. sought for purchase (meaning the number of shares, for share certificates, or the number of shares specified by Cabinet Office Ordinance for Securities other than share certificates; hereinafter the same applies in this Section), the purchase, etc. period, and other particulars specified by Cabinet Office Ordinance. In this, if the purchase, etc. period is shorter than the period specified by Cabinet Order, it must be clearly indicated in the public notice that the purchase, etc. period may be extended pursuant to Article 27-10, paragraph (3).

(2) A person that issues the public notice under the preceding paragraph (hereinafter referred to as a "Public Notice of the Commencement of a Tender Offer" in this Section) (such a person is hereinafter referred to as a "Tender Offeror" in this Section) must submit a document stating the following particulars and the accompanying documents specified by Cabinet Office Ordinance (hereinafter collectively referred to as the "Tender Offer Statement" in this Section and Articles 167, 197 and 197-2) to the Prime Minister on the day on which it issues the Public Notice of the Commencement of the Tender Offer, pursuant to the provisions of Cabinet Office Ordinance; provided, however, that, if the day on which the person is required to submit the Tender Offer Statement falls on a Sunday or other day specified by Cabinet Office Ordinance, that person is to submit the Tender Offer Statement on the following day:

(i) the purchase, etc. price, the number of Share Certificates, etc. sought for purchase, the purchase, etc. period (including the detail indicated in the public notice pursuant to the second sentence of the preceding paragraph), the terms of delivery in connection with the purchase, etc., and other terms of settlement and purchase, etc. set by the Tender Offeror (hereinafter collectively referred to as the "Terms of Purchase, etc." in this Section);

- (ii) the details of any contract to purchase, etc. the Share Certificates, etc. that are subject to the Tender Offer, other than through said Tender Offer, on or after the day on which the Tender Offeror issues the Public Notice of the Commencement of the Tender Offer; and
  - (iii) the purpose of the Tender Offer, the particulars of the Tender Offeror, and other particulars specified by Cabinet Office Ordinance.
- (3) It is prohibited for a Tender Offeror, the Specially Related Party of a Tender Offeror (meaning a Specially Related Party as defined in Article 27-2, paragraph (7); hereinafter the same applies in this Section), or any other relevant party specified by Cabinet Order (hereinafter collectively referred to as the "Tender Offeror, etc." in this Section) to solicit offers to sell, etc. Share Certificates, etc. or to perform other acts specified by Cabinet Order in connection with a Tender Offer, on or after the day following the day on which the Public Notice of the Commencement of the Tender Offer is issued, unless the Tender Offeror has submitted the Tender Offer Statement to the Prime Minister.
- (4) Immediately after the submission of a Tender Offer Statement, the Tender Offeror shall send a copy of the Tender Offer Statement to the Issuer of the Share Certificates, etc. involved in the Tender Offer (and to any person that has already submitted a Tender Offer Statement for the Share Certificates, etc. of that Issuer as of the day on which the Tender Offeror submits the Tender Offer Statement), and, if the Share Certificates, etc. involved in the Tender Offer fall under a category set forth in one of the following items, the Tender Offeror must also send a copy of the Tender Offer Statement to the person specified in the relevant item for the category of Share Certificates, etc. set forth in that item. The necessary particulars relevant to the sending of the copies in such a case is specified by Cabinet Office Ordinance:
- (i) Share Certificates, etc. listed on a Financial Instruments Exchange: the Financial Instruments Exchange; and
  - (ii) Share Certificates, etc. specified by Cabinet Order as having equivalent distribution statuses to the Share Certificates, etc. referred to in the preceding item: the Authorized Financial Instruments Business Association specified by Cabinet Order.

(Purchases, etc. in Which Securities Are Delivered as the Consideration)  
Article 27-4 (1) Except in a case provided for in the following paragraph, if a Tender Offeror, etc. makes Securities the consideration for its purchases, etc. in a Tender Offer, and a Public Offering or Secondary Distribution of the relevant Securities is subject to the main clause of Article 4, paragraph (1), the main clause of Article 4, paragraph (2), or the main clause of Article 4, paragraph (3), the Tender Offeror, etc. must not solicit offers to sell, etc. or

perform other acts specified by Cabinet Office Ordinance in connection with the Tender Offer unless the Issuer of the Securities provides the Prime Minister with the notification under those provisions at the same time as the submission of the Tender Offer Statement or an amended statement.

- (2) In a case referred to in the preceding paragraph, if a Shelf Registration has been made for the Securities referred to in that paragraph, the Tender Offeror, etc. must not solicit offers to sell, etc. or perform other acts specified by Cabinet Order in connection with the Tender Offer unless the Shelf Registration has come into effect and the Shelf Registrant of the Securities submits Shelf Registration Supplements to the Prime Minister at the same time as the submission of the Tender Offer Statement or an amended statement.
- (3) Notwithstanding the provisions of paragraph (2) of the preceding Article, in a Tender Offer that has Securities as the consideration for purchase, etc., if the notification under Article 4, paragraphs (1) to (3) inclusive has been made or the Shelf Registration Supplements have been submitted for the Securities, part of the particulars that are required to be included in a Tender Offer Statement and accompanying documents may be omitted as specified by Cabinet Office Ordinance in the Tender Offer Statement that is required to be submitted for the Tender Offer.

(Prohibition of Purchases, etc. Not through a Tender Offer)

Article 27-5 A Tender Offeror, etc. must not purchase, etc. Share Certificates, etc. that are issued by the Issuer of the Share Certificates, etc. involved in the relevant Tender Offer, other than through said Tender Offer, during the Tender Offer period (meaning the period from the day on which it issues the Public Notice of the Commencement of the Tender Offer to the last day of the purchase, etc. period, and including the extended period, if any; hereinafter the same applies in this Section); provided, however, that this does not apply in the following cases:

- (i) if the contract for effecting a purchase, etc. of Share Certificates, etc. that are issued by the Issuer of the relevant Share Certificates, etc., other than through said Tender Offer, is concluded before the Public Notice of the Commencement of the Tender Offer, and the existence and details of that contract are stated in the Tender Offer Statement;
- (ii) if a person set forth in Article 27-2, paragraph (7), item (i) (except one that also falls under the category of persons specified in Article 27-2, paragraph (7), item (ii)) notifies the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, that the person does not fall under the category of persons specified in Article 27-2, paragraph (7), item (ii); or
- (iii) other cases specified by Cabinet Order.

(Changes to the Terms of Purchase, etc. for a Tender Offer)

Article 27-6 (1) A Tender Offeror may not make any of the following changes to the Terms of Purchase, etc.:

- (i) the lowering of the purchase, etc. price (excluding what is implemented if the Public Notice of the Commencement of the Tender Offer and the Tender Offer Statement states, as one of the Terms of Purchase, etc., that the purchase, etc. price may be lowered according to the standards specified by Cabinet Office Ordinance if the Target Company (meaning a Target Company provided for in Article 27-10, paragraph (1)) conducts a share split or performs any other act specified by Cabinet Order during the Tender Offer period);
  - (ii) reduction of the number of Share Certificates, etc. sought for purchase;
  - (iii) shortening of the purchase, etc. period; or
  - (iv) any other changes in the Terms of Purchase, etc. specified by Cabinet Order.
- (2) A Tender Offeror may make any change to the Terms of Purchase, etc. other than one that is specified in the items of the preceding paragraph. In this, a Tender Offeror seeking to make such a change must issue public notice of the details of the change to the Terms of Purchase, etc. (excluding an extension of the purchase, etc. period, if it is extended pursuant to Article 27-10, paragraph (3)) and other particulars specified by Cabinet Office Ordinance during the Tender Offer period, pursuant to the provisions of Cabinet Order.
- (3) If it is difficult for a Tender Offeror to issue the public notice under the preceding paragraph by the last day of the Tender Offer period, the Tender Offeror must publicly announce the details and the particulars specified in the preceding paragraph pursuant to the provisions of Cabinet Office Ordinance, and issue a public notice based on the rules provided for in the preceding paragraph immediately after that.

(Amendment of a Public Notice of the Commencement of a Tender Offer)

Article 27-7 (1) If a Tender Offeror that has issued a Public Notice of the Commencement of a Tender Offer (including a public notice under paragraph (2) or (3) of the preceding Article and a public announcement under Article 27-6, paragraph (3); the same applies in the following paragraph) finds a formal deficiency in the content of said notice or finds that the content of the notice conflicts with the facts of the matter, the Tender Offeror must amend its content and issue a public notice or a public announcement pursuant to the provisions of Cabinet Office Ordinance.

- (2) If the Prime Minister finds it to be necessary for a Public Notice of the Commencement of a Tender Offer to be amended, the Prime Minister may

order the Tender Offeror that issued the Public Notice of the Commencement of the Tender Offer to issue a public notice or a public announcement of the details of the amendment pursuant to the provisions of Cabinet Office Ordinance, within the time limit designated by the Prime Minister.

- (3) A disposition under the preceding paragraph may not be reached after the last day of the Tender Offer period (including the period by which it is required to be extended pursuant to paragraph (8) of the following Article).

(Submission of an Amended Statement in Connection with a Tender Offer Statement)

Article 27-8 (1) If a Tender Offeror that has submitted a Tender Offer Statement (including any amended statement in connection with it; hereinafter the same applies in this Article) finds that there is a formal deficiency in the Tender Offer Statement, that its content conflicts with the facts of the matter, that it insufficiently states or omits a statement as to a particular that is required to be stated, or that it insufficiently states or omits a statement as to a fact that is necessary to prevent it from being misleading, the Tender Offeror must submit an amended statement to the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance.

- (2) If, on or after the day on which a Tender Offer Statement is submitted and before the last day of the Tender Offer period, the Terms of Purchase, etc. change (other than an extension of the purchase, etc. period under Article 27-10, paragraph (3)), any other material particular that is required to be stated in a Tender Offer Statement changes, or any other circumstance specified by Cabinet Office Ordinance arises that requires the Tender Offer Statement to be amended, the Tender Offeror that submitted the Tender Offer Statement must immediately submit an amended statement to the Prime Minister pursuant to the provisions of Cabinet Office Ordinance.

- (3) If Prime Minister finds it to be clear that any of the following facts have occurred, the Prime Minister may order the Tender Offeror that submitted the Tender Offer Statement to submit an amended statement within the time limit designated by the Prime Minister:

- (i) the Tender Offer Statement contains a formal deficiency;
- (ii) the Terms of Purchase, etc. stated in the Tender Offer Statement do not comply with the provisions of this Section; or
- (iii) the change in the Terms of Purchase, etc. that is stated in the amended statement violates Article 27-6, paragraph (1).

- (4) Except in a case under the provisions of the preceding paragraph, on discovering any of the following facts to have occurred, the Prime Minister may order a Tender Offeror that has submitted a Tender Offer Statement to submit an amended statement within the time limit designated by the Prime Minister.

In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing:

- (i) the Tender Offer Statement contains a false statement about a material particular; or
  - (ii) the Tender Offer Statement omits a statement as to a material particular that is required to be stated or omits a statement of material fact that is necessary to prevent it from being misleading.
- (5) A disposition under paragraph (3) may not be reached after the last day of the Tender Offer period (including the period by which it is required to be extended pursuant to paragraph (8); the same applies in paragraph (7)) (or, for a disposition resulting in an amended statement being submitted after the last day of the Tender Offer period, after the day on which five years have elapsed since the day following the last day of the Tender Offer period), and a disposition under the preceding paragraph may not be reached after the day on which five years have elapsed since the day following the last day of the Tender Offer period.
- (6) The provisions of Article 27-3, paragraph (4) apply *mutatis mutandis* if an amended statement is submitted pursuant to the provisions of paragraphs (1) to (4) inclusive.
- (7) If a disposition under paragraph (3) or (4) is reached during the Tender Offer period, the Tender Offeror, etc. must not solicit offers to sell, etc. or perform any other act specified by Cabinet Order for the Tender Offer until the amended statement required by the disposition is submitted.
- (8) If an amended statement under paragraph (1) or (2) is submitted or an order to submit an amended statement under paragraph (3) or (4) is issued during the Tender Offer period, except in a case specified by Cabinet Office Ordinance, the Tender Offeror must extend the purchase, etc. period in that Tender Offer by a period specified by Cabinet Office Ordinance and immediately issue public notice of this or publicly announce it, pursuant to the provisions of Cabinet Office Ordinance.
- (9) If the purchase, etc. period in a Tender Offer is required to be extended pursuant to the preceding paragraph, the Tender Offeror must not acquire the Share Certificates, etc. subject to the Tender Offer or conduct other settlement procedures for the Tender Offer until the last day of the required period of extension.
- (10) If the purchase, etc. period in a Tender Offer is required to be extended pursuant to paragraph (8), the provisions of Article 27-5 apply *mutatis mutandis* until the last day of the required period of extension.
- (11) If a Tender Offeror submits an amended statement pursuant to the provisions of paragraphs (1) to (4) inclusive, it shall issue public notice of the

contents stated in the amended statement that pertain to the contents stated in the Tender Offer Statement, pursuant to the provisions of Cabinet Order, or publicly announce them pursuant to the provisions of Cabinet Office Ordinance; provided, however, that this does not apply if the Tender Offeror has issued the public notice under Article 27-6, paragraph (2) or issued a public notice and public announcement under Article 27-6, paragraph (3), nor does it apply if the Tender Offeror has submitted an amended statement under paragraph (1) that is specified by Cabinet Office Ordinance as one whose content is of minor importance.

(12) The preceding Article applies mutatis mutandis to a public notice or public announcement under paragraph (8) or the preceding paragraph.

(Preparation and Delivery of a Tender Offer Explanation, etc.)

Article 27-9 (1) A Tender Offeror shall prepare a document that states the particulars specified by Cabinet Office Ordinance from among the particulars that are required to be stated in a Tender Offer Statement and the particulars that are specified by Cabinet Office Ordinance as necessary and appropriate in the public interest or for the protection of investors (hereinafter referred to as a "Tender Offer Explanation" in this Section and Articles 197-2 and 200), pursuant to the provisions of Cabinet Office Ordinance.

(2) When effecting a purchase, etc. of Share Certificates, etc. through a Tender Offer, the Tender Offeror shall deliver a Tender Offer Explanation to a person seeking to sell, etc. those Share Certificates, etc., pursuant to the provisions of Cabinet Office Ordinance.

(3) If a Tender Offeror has submitted an amended statement pursuant to the provisions of paragraphs (1) to (4) inclusive of the preceding Article, it must immediately amend the Tender Offer Explanation pursuant to the provisions of Cabinet Office Ordinance and deliver the amended Tender Offer Explanation to any person to which the Tender Offer Explanation has already been delivered.

(Submission of a Target Company's Position Statement, Tender Offeror's Answer, etc.)

Article 27-10 (1) The Issuer of the Share Certificates, etc. involved in a Tender Offer (hereinafter referred to as the "Target Company" in this Section and Article 27-30-11, paragraph (3)), pursuant to the provisions of Cabinet Office Ordinance, shall submit a document that states its opinion about the Tender Offer and other particulars specified by Cabinet Office Ordinance (hereinafter referred to as the "Target Company's Position Statement") to the Prime Minister within a period specified by Cabinet Order from the date on which the Public Notice of the Commencement of the Tender Offer is issued.

(2) The Target Company may include the following particulars in the Target

Company's Position Statement, in addition to its opinion about the Tender Offer:

- (i) questions for the Tender Offeror; or
  - (ii) a request for an extension of the purchase, etc. period indicated in the Public Notice of the Commencement of the Tender Offer to the period specified by Cabinet Order (but only if the purchase, etc. period is shorter than the period specified by Cabinet Order).
- (3) If the request set forth in item (ii) of the preceding paragraph has been included in the Target Company's Position Statement pursuant to the preceding paragraph and the Prime Minister makes the Target Company's Position Statement available for public inspection pursuant to Article 27-14, paragraph (1), the Tender Offeror must extend the purchase, etc. period to the period specified by Cabinet Order.
- (4) If a Target Company makes the request set forth in item (ii) of paragraph (2) in the Target Company's Position Statement under paragraph (2), the Target Company, pursuant to the provisions of Cabinet Order, must issue public notice of the purchase, etc. period after the extension under the preceding paragraph, and of the other particulars specified by Cabinet Office Ordinance, by the day following the last day of the period set forth in paragraph (1).
- (5) If a Target Company that issues the public notice under the preceding paragraph (hereinafter referred to as the "Public Notice of a Request for a Period Extension" in the following paragraph) finds a formal deficiency in the content of said public notice or finds that its content conflicts with the facts of the matter, the Target Company must amend this content and issue a public notice or a public announcement pursuant to the provisions of Cabinet Office Ordinance.
- (6) If the Prime Minister finds it to be necessary for the Public Notice of a Request for a Period Extension to be amended, the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, may order the Target Company that issued said public notice to issue a public notice or public announcement of the details of the amended statement within the time limit designated by the Prime Minister.
- (7) A disposition under the preceding paragraph may not be reached after the last day of the Tender Offer period (including the period by which it is required to be extended pursuant to Article 27-8, paragraph (8)).
- (8) The provisions of Article 27-8, paragraphs (1) to (5) inclusive (excluding Article 27-8, paragraph (3), items (ii) and (iii)) apply mutatis mutandis to a Target Company's Position Statement. In this case, in Article 27-8, paragraph (1), the term "Tender Offeror" is deemed to be replaced with "Target Company as defined in Article 27-10, paragraph (1)" and the term "amended statement" is deemed to be replaced with "amended report"; in Article 27-8, paragraph (2),

the phrase "the Terms of Purchase, etc. change" is deemed to be replaced with "opinion about the Tender Offer changes", the term "Tender Offeror" is deemed to be replaced with "Target Company defined in Article 27-10, paragraph (1)", and the term "amended statement" is deemed to be replaced with "amended report"; in Article 27-8, paragraphs (3) and (4), the term "Tender Offeror" is deemed to be replaced with "Target Company defined in Article 27-10, paragraph (1)" and the term "amended statement" is deemed to be replaced with "amended report"; and in Article 27-8, paragraph (5), the phrase "A disposition under paragraph (3)" is deemed to be replaced with "A disposition under paragraph (3) as applied mutatis mutandis pursuant to Article 27-10, paragraph (8)", the term "amended statement" is deemed to be replaced with "amended report", and the phrase "disposition under the preceding paragraph" is deemed to be replaced with "disposition under the preceding paragraph as applied mutatis mutandis pursuant to Article 27-10, paragraph (8)".

- (9) Immediately after submitting a Target Company's Position Statement, the Target Company in a Tender Offer shall send a copy of the Target Company's Position Statement to the Tender Offeror involved in the Tender Offer (and to any person that has already submitted a Tender Offer Statement for Share Certificates, etc. of which the Target Company is the Issuer as of the day on which it submits the Target Company's Position Statement), and, if the Share Certificates, etc. involved in the Tender Offer fall under a category set forth in one of the items of Article 27-3, paragraph (4), the Target Company must also send a copy of the Target Company's Position Statement to the person specified in the relevant item for the category of Share Certificates, etc. set forth in that item.
- (10) The preceding paragraph applies mutatis mutandis if an amended report is submitted pursuant to Article 27-8, paragraphs (1) to (4) inclusive as applied mutatis mutandis pursuant to paragraph (8).
- (11) If a question referred to in paragraph (2), item (i) has been included in a Target Company's Position Statement, a Tender Offeror that receives a copy of the Target Company's Position Statement pursuant to paragraph (9) must submit a document, pursuant to the provisions of Cabinet Office Ordinance, stating an answer to the question (or, if it finds that it is not necessary to answer the question, the reason why it finds this to be so) and other particulars specified by Cabinet Office Ordinance (hereinafter referred to as the "Tender Offeror's Answer") to the Prime Minister within a period specified by Cabinet Order from the date on which it receives the copy of the Target Company's Position Statement.
- (12) The provisions of Article 27-8, paragraphs (1) to (5) inclusive (excluding Article 27-8, paragraph (3), items (ii) and (iii)) apply mutatis mutandis to a Tender Offeror's Answer. In this case, in Article 27-8, paragraph (1), the term

"amended statement" is deemed to be replaced with "amended report"; in Article 27-8, paragraph (2), the phrase "Terms of Purchase, etc. change" is deemed to be replaced with "answer changes" and the term "amended statement" is deemed to be replaced with "amended report"; in Article 27-8, paragraphs (3) and (4), the term "amended statement" is deemed to be replaced with "amended report"; and in Article 27-8, paragraph (5), the phrase "A disposition under paragraph (3)" is deemed to be replaced with "A disposition under paragraph (3) as applied mutatis mutandis pursuant to Article 27-10, paragraph (12)", the term "amended statement" is deemed to be replaced with "amended report", and the phrase "disposition under the preceding paragraph" is deemed to be replaced with "disposition under the preceding paragraph as applied mutatis mutandis pursuant to Article 27-10, paragraph (12)".

- (13) Immediately after submitting a Tender Offeror's Answer, the Tender Offeror shall send a copy of the Tender Offeror's Answer to the Target Company (and to any person that has already submitted a Tender Offer Statement for Share Certificates, etc. of which the Target Company is the Issuer as of the day on which it submits the Tender Offeror's Answer), and, if the Share Certificates, etc. involved in the Tender Offer fall under a category set forth in one of the items of Article 27-3, paragraph (4), the Tender Offeror must also send a copy of the Tender Offeror's Answer to the person specified in the relevant item for the category of Share Certificates, etc. set forth in that item.
- (14) The provisions of the preceding paragraph apply mutatis mutandis if an amended report is submitted pursuant to Article 27-8, paragraphs (1) to (4) inclusive as applied mutatis mutandis pursuant to paragraph (12).

(Tender Offer Withdrawal, etc. and Cancellation of Contracts by the Tender Offeror)

Article 27-11 (1) A Tender Offeror may not withdraw offers or cancel contracts in connection with a Tender Offer (hereinafter collectively referred to as "Tender Offer Withdrawal, etc." in this Section) after having issued Public Notice of the Commencement of the Tender Offer; provided, however, that this does not apply if the Tender Offeror states as one of the Terms of Purchase, etc. in the Public Notice of the Commencement of the Tender Offer and in the Tender Offer Statement that the Tender Offer may be withdrawn if a material change occurs in the business or property of the Issuer of the Share Certificates, etc. that are involved in the Tender Offer or in its Subsidiary (meaning a Subsidiary as defined in Article 2, item (iii) of the Companies Act) or any other circumstance occurs that would significantly compromise its ability to achieve the purpose of the Tender Offer (limited to circumstances specified by Cabinet Order), or if an order to commence bankruptcy proceedings is issued against the Tender Offeror or any other material change in circumstances specified by

Cabinet Order occurs.

- (2) If the Tender Offeror seeks to effect a Tender Offer Withdrawal, etc. under the proviso to the preceding paragraph, the Tender Offeror must issue a public notice indicating that it will effect a Tender Offer Withdrawal, etc., the reason for this, and other particulars specified by Cabinet Office Ordinance by the last day of the Tender Offer period, pursuant to the provisions of Cabinet Order; provided, however, that if it is difficult for the Tender Offeror to issue such a public notice by the last day of the Tender Offer period, the Tender Offeror is to issue a public announcement of the details that are required to be stated in the public notice, pursuant to the provisions of Cabinet Office Ordinance, and issue the public notice immediately following.
- (3) A person issuing a public notice or public announcement under the preceding paragraph shall submit a document to the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, in which it states the details that are required to be stated in the public notice provided for in the preceding paragraph and other particulars specified by Cabinet Office Ordinance (hereinafter referred to as a "Written Tender Offer Withdrawal Notice" in this Section and Articles 167, 197 and 197-2) on the day on which said person issues the public notice or public announcement.
- (4) The provisions of Article 27-3, paragraph (4) apply mutatis mutandis to a Written Tender Offer Withdrawal Notice. In this case, in Article 27-3, paragraph (4), the phrase "the Issuer of the Share Certificates, etc. involved in the Tender Offer is made (and to any person that has already submitted a Tender Offer Statement for the Share Certificates, etc. of that Issuer as of the day on which the Tender Offeror submits the Tender Offer Statement)" is deemed to be replaced with "the Issuer of the Share Certificates, etc. involved in the Tender Offer".
- (5) A Tender Offer Withdrawal, etc. comes into effect only if public notice is given pursuant to paragraph (2). In this, the Tender Offer Withdrawal, etc. comes into effect at the time at which the public notice is given (or at the time when the public announcement is made, if the public announcement and the public notice are given pursuant to the proviso to paragraph (2)).

(Cancellation of a Contract by a Tendering Shareholder, etc.)

Article 27-12 (1) A tendering shareholder, etc. (meaning a person that accepts an offer to purchase, etc. the Share Certificates, etc. involved in a Tender Offer or that offers to sell, etc. them; hereinafter the same applies in this Section) may cancel a contract involving a Tender Offer at any time during the Tender Offer period (including the period by which it is required to be extended pursuant to Article 27-8, paragraph (8); the same applies in paragraphs (1) and (4) of the following Article, Article 27-14, paragraph (1) and Article 27-21, paragraphs (1)

and (2)).

- (2) If a Public Notice of the Commencement of a Tender Offer and a Tender Offer Statement includes the condition that any cancellation of a contract connected with the Tender Offer be done by a method specified by Cabinet Order, a tendering shareholder, etc. that cancels a contract pursuant to the preceding paragraph must do so by that method. In this, the cancellation of the contract comes into effect at the time specified by Cabinet Order.
- (3) If a tendering shareholder, etc. cancels a contract pursuant to paragraph (1), the Tender Offeror may not request the tendering shareholder, etc. to pay damages or penalties, and if the Tender Offeror is having a Financial Services Provider or a bank, etc. manage the tendered Share Certificates, etc. (meaning Share Certificates, etc. that the tendering shareholders, etc. sell, etc. in response to the Tender Offer; hereinafter the same applies in this Section), the Tender Offeror bears the cost required to return them.

(Public Notice of the Number of Tendered Share Certificates, etc. in a Tender Offer and Submission of a Tender Offer Report, etc.)

Article 27-13 (1) A Tender Offeror, pursuant to the provisions of Cabinet Order, shall issue a public notice or public announcement of the number of tendered Share Certificates, etc. and other particulars specified by Cabinet Office Ordinance on the day following the last day of the Tender Offer period; provided, however, that this does not apply if a public notice has been issued pursuant to Article 27-11, paragraph (2).

- (2) A Tender Offeror issuing a public notice or public announcement under the main clause of the preceding paragraph shall submit a document to the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, in which it states the details of that public notice or public announcement and other particulars specified by Cabinet Office Ordinance (hereinafter referred to as a "Tender Offer Report" in this Section and Articles 197 and 197-2) on the day on which it issues the public notice or public announcement.
- (3) The provisions of Article 27-3, paragraph (4) and Article 27-8, paragraphs (1) to (6) inclusive apply mutatis mutandis to a Tender Offer Report. In this case, in Article 27-3, paragraph (4), the phrase "the Tender Offeror shall send a copy of the Tender Offer Statement to the Issuer of the Share Certificates, etc. involved in the Tender Offer (and to any person that has already submitted a Tender Offer Statement for the Share Certificates, etc. of that Issuer as of the day on which the Tender Offeror submits the Tender Offer Statement)" is deemed to be replaced with "the Issuer of the Share Certificates, etc. involved in the Tender Offer"; in Article 27-8, paragraph (1), the term "amended statement" is deemed to be replaced with "amended report"; in Article 27-8, paragraph (2), the phrase "submitted and before the last day of the Tender

Offer period, the Terms of Purchase, etc. change (other than an extension of the purchase, etc. period under Article 27-10, paragraph (3)), any other material particular that is required to be stated in a Tender Offer Statement changes, or any other circumstance specified by Cabinet Office Ordinance arises that requires the Tender Offer Statement to be amended" is deemed to be replaced with "submitted, the number of Share Certificates, etc. for which a purchase, etc. will be effected is fixed by the Pro Rata Method set forth in Article 27-13, paragraph (5)" and the term "amended statement" is deemed to be replaced with "amended report"; in Article 27-8, paragraph (3), the term "amended statement" is deemed to be replaced with "amended report", the term "Terms of Purchase, etc." is deemed to be replaced with "delivery and other settlement methods", the phrase "the provisions of this Section" is deemed to be replaced with "Article 27-13, paragraphs (4) and (5)", the phrase "the change in the Terms of Purchase, etc. that is stated in the amended statement violates Article 27-6, paragraph (1)" is deemed to be replaced with "the result of calculations for deciding the number of Share Certificates, etc. being purchased, etc. contravenes the Pro Rata Method specified by Cabinet Office Ordinance that is stipulated in Article 27-13, paragraph (5)"; in Article 27-8, paragraph (4), the term "amended statement" is deemed to be replaced with "amended report"; in Article 27-8, paragraph (5), the phrase "disposition under paragraph (3)" is deemed to be replaced with "disposition under paragraph (3) and the preceding paragraph as applied mutatis mutandis pursuant to Article 27-13, paragraph (3)" and the phrase "the last day of the Tender Offer period (including the period by which it is required to be extended pursuant to paragraph (8); the same applies in paragraph (7)) (or, for a disposition resulting in an amended statement being submitted after the last day of the Tender Offer period, after the day on which five years have elapsed since the day following the last day of the Tender Offer period), and the disposition under the preceding paragraph may not be reached after the day on which five years have elapsed since the day following the last day of the Tender Offer period" is deemed to be replaced with "the day on which five years have elapsed since the day following the last day of the Tender Offer period"; and in Article 27-8, paragraph (6), the term "amended statement" is deemed to be replaced with "amended report" and the phrase "paragraphs (1) to (4) inclusive" is deemed to be replaced with "paragraphs (1) to (4) inclusive as applied mutatis mutandis pursuant to Article 27-13, paragraph (3)".

- (4) Unless a Tender Offeror, during the Tender Offer period, effects a Tender Offer Withdrawal, etc. pursuant to the proviso to Article 27-11, paragraph (1) for all of the tendered Share Certificates, etc., or unless the Tender Offeror has included one of the following conditions in the Public Notice of the Commencement of the Tender Offer and in the Tender Offer Statement (if the

Tender Offeror has included the condition referred to in item (ii), this is only if the Ownership Ratio of Share Certificates, etc. (meaning Ownership Ratio of Share Certificates, etc. as defined in Article 27-2, paragraph (8)), in terms of the Share Certificates, etc. that the Tender Offeror will hold after the Tender Offer (if the Tender Offeror has a Specially Related Party as specified in Article 27-2, paragraph (1), item (i), the Ownership Ratio of Share Certificates, etc. as defined in Article 27-2, paragraph (8), in terms of the Share Certificates, etc. that Specially Related Party holds, is added to calculate this) will be below the proportion specified by Cabinet Order), the Tender Offeror must acquire or otherwise effect settlement procedures for its purchase, etc. based on the Terms of Purchase, etc. it has stated in the Public Notice of the Commencement of the Tender Offer and in the Tender Offer Statement (or, if it has changed the Terms of Purchase, etc. in accordance with a public notice under Article 27-6, paragraph (2) or a public announcement and public notice under Article 27-6, paragraph (3), based on the Terms of Purchase, etc. after the change) for all tendered Share Certificates, etc.:

- (i) that if the total number of tendered Share Certificates, etc. does not reach the number of Share Certificates, etc. designated in advance in the Public Notice of the Commencement of the Tender Offer and in the Tender Offer Statement as the whole number of Share Certificates, etc. sought for purchase or a portion of them, the Tender Offeror will not purchase, etc. any of the tendered Share Certificates, etc.; or
  - (ii) that if the total number of tendered Share Certificates, etc. exceeds the number of Share Certificates, etc. sought for purchase, the Tender Offeror will not purchase, etc. tendered Share Certificates, etc. in excess of the number of Share Certificates, etc. sought for purchase.
- (5) If the condition specified in item (ii) of the preceding paragraph has been given, and the total number of tendered Share Certificates, etc. exceeds the number of Share Certificates, etc. sought for purchase, the Tender Offeror must acquire Share Certificates, etc. and effect other settlement procedures for their purchase, etc. using the pro rata method specified by Cabinet Office Ordinance (hereinafter referred to as the "Pro Rata Method" in this Section).

(Public Inspection of a Tender Offer Statement, etc.)

Article 27-14 (1) The Prime Minister must make a Tender Offer Statement (including any amended statement in connection with it; the same applies in paragraph (1) of the following Article), Written Tender Offer Withdrawal Notice, Tender Offer Report, Target Company's Position Statement, and Tender Offeror's Answer (including any amended report in connection with them; the same applies in paragraph (1) of the following Article) available for public inspection, pursuant to the provisions of Cabinet Office Ordinance,

during the period from the day that the Prime Minister accepts them to the day on which five years have elapsed since the day following the last day of the Tender Offer period in the relevant Tender Offer.

- (2) Pursuant to the provisions of Cabinet Office Ordinance, a person that has submitted a document prescribed in the preceding paragraph (hereinafter referred to as a "Public Document" in this Article) (such a person is hereinafter referred to as the "Submitter" in this Article) must keep a copy of that Public Document at its head office or principal office and make it available for public inspection during the period that the Prime Minister makes that Public Document available for public inspection pursuant to the preceding paragraph.
- (3) Pursuant to the provisions of Cabinet Office Ordinance, Financial Instruments Exchanges and the Authorized Financial Instruments Business Associations specified by Cabinet Order must keep copies of the Public Documents they have been sent pursuant to Article 27-3, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27-8, paragraph (6), Article 27-11, paragraph (4) and paragraph (3) of the preceding Article), Article 27-10, paragraph (9) (including as applied mutatis mutandis pursuant to Article 27-10, paragraph (10)), and Article 27-10, paragraph (13) (including as applied mutatis mutandis pursuant to Article 27-10, paragraph (14)) at their offices and make them available for public inspection during the period that the Prime Minister makes those Public Documents available for public inspection pursuant to the provisions of paragraph (1).
- (4) Beyond what is provided for in the preceding three paragraphs, the necessary matters relevant to the public inspection referred to in paragraph (1) are specified by Cabinet Office Ordinance.
- (5) Notwithstanding the provisions of paragraph (1), if the Prime Minister issues one of the following dispositions, the Prime Minister may decide not to make all or part of the Public Documents that are connected with the disposition available for public inspection:
  - (i) an order to submit an amended statement under the provisions of Article 27-8, paragraph (3) or (4);
  - (ii) an order to submit an amended report under Article 27-8, paragraph (3) or (4) as applied mutatis mutandis pursuant to Article 27-10, paragraph (8) or (12), or paragraph (3) of the preceding Article.
- (6) In a case referred to in the preceding paragraph, the Prime Minister is to notify the Submitter that makes the copies of the Public Documents available for public inspection pursuant to paragraph (2), as well as the Financial Instruments Exchanges or the Authorized Financial Instruments Business Associations specified by Cabinet Order which are referred to in paragraph (3), which make copies of the Public Documents available for public inspection pursuant to the provisions of paragraph (3), that the Prime Minister has

decided that all or part of the Public Documents will not be made available for public inspection.

- (7) If a Submitter or a Financial Instruments Exchange or Authorized Financial Instruments Business Association has been notified by the Prime Minister pursuant to the provisions of the preceding paragraph, the provisions of paragraphs (2) and (3) do not apply after that time to the copies of the Public Documents to which the notice pertains.

(Prohibition on Presuming the Veracity of a Tender Offer Statement, etc.)

Article 27-15 (1) No person may deem, due to a Tender Offer Statement, Written Tender Offer Withdrawal Notice, Tender Offer Report, Target Company's Position Statement, or Tender Offeror's Answer having been accepted, that the Prime Minister certifies a statement contained in these documents to be true and accurate, or that the Prime Minister certifies these documents not to omit a statement as to a material particular.

- (2) It is not permitted for the Tender Offeror, etc. or the Target Company to make a representation that is in violation of the preceding paragraph.

(Compensatory Liability for Violations Connected with a Tender Offer)

Article 27-16 The provisions of Article 16 apply mutatis mutandis to a person that violates the provisions of Article 27-3, paragraph (3) or Article 27-8, paragraph (7) in performing an act specified by Cabinet Office Ordinance, or that violates the provisions of Article 27-9, paragraph (2) or (3) in effecting a purchase, etc. of Share Certificates, etc. In this case, in Article 16, the phrase "the person that acquires the Securities" is deemed to be replaced with "the person that sells, etc. its Share Certificates, etc. in response to the Tender Offer".

Article 27-17 (1) A Tender Offeror, etc. that violates the provisions of Article 27-5 (including as applied mutatis mutandis pursuant to Article 27-8, paragraph (10); hereinafter the same applies in this paragraph) in effecting a purchase, etc. of Share Certificates, etc. is liable to compensate for damage sustained by a person that sells, etc. its Share Certificates, etc. in response to the Tender Offer (excluding persons that sell, etc. Share Certificates, etc. to which Article 27-5 is applicable and the part of the persons that are prescribed in paragraph (2), item (i) of the following Article).

- (2) The amount of compensation for which the Tender Offeror, etc. is liable pursuant to the preceding paragraph is the price that the Tender Offeror, etc. pays at the time it effects a purchase, etc. referred to in the preceding paragraph (this includes providing a benefit equivalent to such a price, and if prices are not the same for all purchases, etc., the most favorable of them is

used) less the Tender Offer price (meaning the purchase, etc. price stated in the Public Notice of the Commencement of the Tender Offer and Tender Offer Statement, or, if the Tender Offeror, etc. changes the purchase, etc. price pursuant to a public notice or public announcement under Article 27-6, paragraph (2) or (3), this means the purchase, etc. price after the change; hereinafter the same applies in this Section), multiplied by the number of tendered Share Certificates, etc. of a claimant under the preceding paragraph (excluding tendered Share Certificates, etc. that could not have been sold, etc. through the Pro Rata Method; the same applies in paragraph (2) of the following Article and Article 27-20, paragraph (2)).

Article 27-18 (1) A person that, in acquiring Share Certificates, etc. or effecting other settlement procedures for a purchase, etc. of Share Certificates, etc. through a Tender Offer (hereinafter referred to as a "Tender Offer Purchaser" in this Article) violates the provisions of Article 27-13, paragraph (4), is liable to compensate for damage sustained by a person that sells, etc. its Share Certificates, etc. in response to the Tender Offer (in a case set forth in item (i) of the following paragraph, this excludes a person that sells, etc. its Share Certificates, etc. at a price that is more favorable than the Tender Offer price (this includes being provided with a benefit equivalent to such a price; hereinafter the same applies in this Article); and in a case set forth in item (ii) of the following paragraph, it includes a person that could not sell, etc. its Share Certificates, etc. due to the Tender Offer Purchaser's use of the different method referred to in item (ii)).

(2) In the following cases, the amount of compensation for which a Tender Offer Purchaser is liable pursuant to the preceding paragraph is the amount specified in the relevant of the following items for the category set forth in that item:

(i) if the Tender Offer Purchaser only purchases, etc. Share Certificates, etc. at a price that is more favorable than the Tender Offer price from a part of the persons that sell, etc. their Share Certificates, etc. in response to the Tender Offer: the favorable price (if two or more favorable prices are used for the purchases, etc., the most favorable price) less the Tender Offer price, multiplied by the number of tendered Share Certificates, etc. of a claimant under the preceding paragraph; and

(ii) if the Tender Offer Purchaser purchases, etc. Share Certificates, etc. through a method that is different from the Pro Rata Method stated in the Tender Offer Statement: the number of Share Certificates, etc. that should have been purchased, etc. from a claimant under the preceding paragraph, as calculated using that Pro Rata Method, less the number of Share Certificates, etc. that the Tender Offer Purchaser actually purchased, etc. from the

claimant (or, if the Tender Offer Purchaser did not purchase, etc. any Share Certificates, etc. from the claimant, the number of the Share Certificates, etc. that should have been purchased, etc. from the claimant, as calculated using that Pro Rata Method), multiplied by the difference between the Tender Offer price (or the price paid by the Tender Offeror as specified in Article 27-17, paragraph (2), in a case to which paragraph (1) of the preceding Article is also applicable; the favorable price referred to in the preceding item, in a case to which the preceding item is also applicable; or the more favorable of these prices, in a case to which both Article 27-17, paragraph (1) and the preceding item are also applicable) and the market price of the Share Certificates, etc. at the time the claimant claims damages under the preceding paragraph (this is the estimated disposal price, if there is no market price for the Share Certificates, etc., or the disposal price, if the Share Certificates, etc. are disposed of prior to the claim being filed).

(Compensatory Liability of a Person Using a Tender Offer Explanation That Contains a False Statement, etc.)

Article 27-19 The provisions of Article 17 apply mutatis mutandis to a person that has caused a person to sell, etc. Share Certificates, etc. through the use of a Tender Offer Explanation or other representation that contains a false statement about a material particular, omits a representation as to a material particular that is required to be represented, or omits a representation of material fact that is necessary to prevent it from being misleading. In this case, in Article 17, the phrase "a person that acquires the Securities" is deemed to be replaced with "a person that sells, etc. its Share Certificates, etc. in response to the Tender Offer".

(Compensatory Liability of a Person Issuing a Public Notice of the Commencement of a Tender Offer Which Contains a False Statement, etc.)

Article 27-20 (1) The provisions of Article 18, paragraph (1) apply mutatis mutandis to the following persons. In this case, in Article 18, paragraph (1), both the phrase "person that acquires the Securities through the Public Offering or Secondary Distribution" and the phrase "person that acquires the Securities" are deemed to be replaced with "person that sells, etc. its Share Certificates, etc. in response to the Tender Offer", and the phrase "at the time the person offers to acquire the Securities" is deemed to be replaced with "at the time the person sells, etc. its Share Certificates, etc.":

(i) a person that issues a Public Notice of the Commencement of the Tender Offer or a public notice or public announcement under Article 27-6, paragraph (2) or (3), Article 27-7, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 27-8, paragraph (12)) or Article 27-8,

- paragraph (8) or (11) (hereinafter collectively referred to as "Public Notice of the Commencement of a Tender Offer, etc." in this and the following Article) that contains a false representation about a material particular, omits a representation as to a material particular that is required to be represented, or omits a representation of material fact that is necessary to prevent it from being misleading;
- (ii) a person that submits a Tender Offer Statement (including any amended statement in connection with it; hereinafter the same applies in this and the following Articles) that contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading;
  - (iii) a person that prepares a Tender Offer Explanation (including a Tender Offer Explanation amended pursuant to Article 27-9, paragraph (3); hereinafter the same applies in this and the following Articles) that contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading; and
  - (iv) a person that submits a Tender Offeror's Answer (including any amended report in connection with this; hereinafter the same applies in this and the following Articles) that contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading.
- (2) If the provisions of the preceding paragraph (excluding items (i) and (iv)) are applicable and, in spite of having concluded a contract to purchase, etc., after the last day of the Tender Offer period, Share Certificates, etc. that are subject to the Tender Offer other than through that Tender Offer, the Tender Offeror does not state this in the Tender Offer Statement or Tender Offer Explanation but then effects the purchase, etc. under the contract after the last day of the Tender Offer period, the amount of compensation that the Tender Offer is liable for to a person that sells, etc. its Share Certificates, etc. in response to the Tender Offer (excluding a person that sells, etc. Share Certificates, etc. pursuant to such a contract, a person that sells, etc. Share Certificates, etc. to which Article 27-5 is applicable, and the part of the persons referred to in Article 27-18, paragraph (2), item (i)) is the price at which the Tender Offeror, etc. purchases, etc. them (this includes providing a benefit equivalent to such a price, and if prices are not the same for all purchases, etc., the most favorable of them is used) less the Tender Offer price, multiplied by the number of tendered Share Certificates, etc. of the claimant under Article 18, paragraph (1) as applied mutatis mutandis pursuant to the preceding paragraph.

(3) Except for cases to which the preceding paragraph is applicable, the persons specified in the following items are jointly and severally liable for compensation under paragraph (1) with the persons set forth in the items of paragraph (1); provided, however, that this does not apply if the person specified in the following items proves that it did not know, and in the exercise of reasonable care could not have known, that the statement was false or had been omitted:

- (i) the Specially Related Party (limited to a person specified in Article 27-2, paragraph (7), item (ii)) of a person set forth in one of the items of paragraph (1); and
- (ii) if a person set forth in one of the items of paragraph (1) is a corporation or other organization, its director, accounting advisor, company auditor, executive officer, board member, auditor, or person equivalent thereto, at the time it submitted the Public Notice of the Commencement of the Tender Offer, etc., the Tender Offer Statement, or the Tender Offeror's Answer, or at the time it prepared the Tender Offeror Explanation.

(Prescription of the Right to Claim Compensation Due to a Violation of Provisions Relevant to a Tender Offer)

Article 27-21 (1) A claim under Article 27-17, paragraph (1) or a claim under Article 27-18, paragraph (1) in a case to which Article 27-18, paragraph (2) is applicable extinguishes by prescription if it is not exercised within one year from when the claimant comes to know, or in exercise of reasonable care could have come to know, of the violation. The same applies if the claim is not exercised within five years from the day following the last day of the Tender Offer period in the relevant Tender Offer.

(2) A claim under Article 27-20, paragraph (1) in a case to which paragraph (2) of the preceding Article is applicable extinguishes by prescription if it is not exercised within one year from when the claimant comes to know, or in exercise of reasonable care could have come to know, that the Public Notice of the Commencement of the Tender Offer, etc., Tender Offer Statement, Tender Offer Explanation, or Tender Offeror's Answer contains a false statement or false representation about a material particular, omits a statement as to a material particular that is required to be stated or represented, or omits a statement of material fact that is necessary to prevent it from being misleading. The same applies if the claim is not exercised within five years from the day following the last day of the Tender Offer period in the relevant Tender Offer.

(Collection of Reports and Inspection of a Tender Offeror)

Article 27-22 (1) Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime

Minister may order a Tender Offeror, a person that that is found to be required to purchase, etc. Share Certificates, etc. through a Tender Offer pursuant to the main clause of Article 27-2, paragraph (1), a Specially Related Party of either of these persons, or any other concerned party or witness, to submit reports or materials that should serve as a reference, and may have the relevant officials inspect these persons' books and documents or any other articles.

- (2) Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a person that has submitted a Target Company's Position Statement, a person that is found to be required to submit the same, or any other concerned party or witness, to submit reports or materials that should serve as a reference, and may have the relevant officials inspect these persons' books and documents or any other articles.

## **Section 2 Tender Offers for Listed Share Certificates, etc. by the Issuer**

(Tender Offers for Listed Share Certificates, etc. by the Issuer)

Article 27-22-2 (1) A purchase, etc. (meaning a purchase or other acquisition for compensation; hereinafter the same applies in this and the following Articles) of Listed Share Certificates, etc. outside a Financial Instruments Exchange Market by the Issuer of those Listed Share Certificates, etc. must be effected by means of a Tender Offer, if it falls under one of the following categories; provided, however, that this does not apply to a purchase, etc. through a transaction specified by Cabinet Order as being equivalent to a purchase and sale, etc. of Securities on a Financial Instruments Exchange Market:

- (i) a purchase, etc. under Article 156, paragraph (1) of the Companies Act (including as it applies through the replacement of certain terms pursuant to Article 165, paragraph (3) of that Act) (unless the Issuer gives the notice under Article 158, paragraph (1) of that Act as provided in Article 160, paragraph (1) of that Act); or
- (ii) a purchase, etc. effected by an Issuer of Listed Share Certificates, etc. that is a foreign company, which is specified by Cabinet Order as a purchase, etc. effected by a method that makes the particulars of that purchase, etc. available to a large number of persons.
- (2) The provisions of Article 27-2, paragraphs (2) to (6) inclusive; Article 27-3 (excluding the second sentence of paragraph (1) and item (ii) of paragraph (2)); Article 27-4; Article 27-5 (limited to the non-itemized part thereof; the same applies in paragraph (5) and Article 27-22-3, paragraph (5)); Articles 27-6 to 27-9 inclusive (excluding Article 27-8, paragraphs (6), (10), and (12)); Article 27-11 to 27-15 inclusive (excluding Article 27-11, paragraph (4) and Article 27-

13, paragraph (3) and paragraph (4), item (i)); Article 27-17; Article 27-18; Article 27-21, paragraph (1); and paragraph (1) of the preceding Article apply mutatis mutandis if a purchase, etc. is effected through a Tender Offer pursuant to the preceding paragraph. In this case, in these provisions (excluding Article 27-3, paragraph (4) and the proviso to Article 27-11, paragraph (1)), the term "Share Certificates, etc." is deemed to be replaced with "Listed Share Certificates, etc."; in Article 27-2, paragraph (6), the phrase "sell, etc. them (meaning effecting a sale or other transfer for consideration; hereinafter the same applies in this Section)" is deemed to be replaced with "sell, etc. them"; in Article 27-3, paragraph (2), the phrase "the following particulars" is deemed to be replaced with "the particulars set forth in items (i) and (iii) below"; in Article 27-3, paragraph (2), item (i), the phrase "purchase, etc. period (including the detail indicated in the public notice pursuant to the second sentence of the preceding paragraph)" is deemed to be replaced with "purchase, etc. period"; in Article 27-3, paragraph (3), the phrase "a Tender Offeror, the Specially Related Party of a Tender Offeror (meaning a Specially Related Party as defined in Article 27-2, paragraph (7); hereinafter the same applies in this Section), or any other relevant party specified by Cabinet Order" is deemed to be replaced with "a Tender Offeror or any other relevant party specified by Cabinet Order"; in the first sentence of Article 27-3, paragraph (4), the phrase "the Tender Offeror shall send a copy of the Tender Offer Statement to the Issuer of the Share Certificates, etc. involved in the Tender Offer (and to any person that has already submitted a Tender Offer Statement for the Share Certificates, etc. of that Issuer as of the day on which the Tender Offeror submits the Tender Offer Statement), and, if the Share Certificates, etc. involved in the Tender Offer fall under a category set forth in one of the following items, the Tender Offeror must also send a copy of the Tender Offer Statement to the person specified in the relevant item for the category of Share Certificates, etc. set forth in that item" is deemed to be replaced with "the Tender Offeror, for the categories of Listed Share Certificates, etc. set forth in the following items, shall send the person set forth in the relevant item a copy of the Tender Offer Statement, and shall also send a copy of the Tender Offer Statement to any person that has already submitted a Tender Offer Statement for Share Certificates, etc. of which the Tender Offeror is the Issuer, as of the day on which it submits the Tender Offer Statement"; in the items of Article 27-3, paragraph (4), the term "Share Certificates, etc." is deemed to be replaced with "Listed Share Certificates, etc."; in the proviso to Article 27-5, the phrase "the following cases" is deemed to be replaced with "the cases specified by Cabinet Order"; in Article 27-6, paragraph (1), item (i), the phrase "the lowering of the purchase, etc. price (excluding what is implemented if the Public Notice of the Commencement of the Tender Offer and the Tender Offer

Statement states, as one of the Terms of Purchase, etc., that the purchase, etc. price may be lowered according to the standards specified by Cabinet Office Ordinance if the Target Company (meaning a Target Company provided for in Article 27-10, paragraph (1)) conducts a share split or performs any other act specified by Cabinet Order during the Tender Offer period)" is deemed to be replaced with "the lowering of the purchase, etc. price"; in Article 27-6, paragraph (2), the phrase "the details of the change to the Terms of Purchase, etc. (excluding the extension of the purchase, etc. period, if it is extended pursuant to Article 27-10, paragraph (3))" is deemed to be replaced with "the details of the change to the Terms of Purchase, etc."; in Article 27-8, paragraph (2), the phrase "the Terms of Purchase, etc. change (other than an extension of the purchase, etc. period under Article 27-10, paragraph (3))" is deemed to be replaced with "the Terms of Purchase, etc. change"; in the proviso to Article 27-11, paragraph (1), the phrase "the Tender Offeror states as one of the Terms of Purchase, etc. in the Public Notice of the Commencement of the Tender Offer and in the Tender Offer Statement that the Tender Offer may be withdrawn if a material change occurs in the business or property of the Issuer of the Share Certificates, etc. that are involved in the Tender Offer or in its Subsidiary (meaning a Subsidiary as defined in Article 2, item (iii) of the Companies Act) or any other circumstance occurs that would significantly compromise its ability to achieve the purpose of the Tender Offer (limited to circumstances specified by Cabinet Order), or if an order to commence bankruptcy proceedings is issued against the Tender Offeror or any other material change in circumstances specified by Cabinet Order occurs" is deemed to be replaced with "effecting a purchase, etc. of Listed Share Certificates, etc. through the Tender Offer would violate any other law or regulation, or if any circumstance occurs that is specified by Cabinet Order as involving a risk of violation of any other law or regulation"; in Article 27-13, paragraph (4), the phrase "has included one of the following conditions in the Public Notice of the Commencement of the Tender Offer and in the Tender Offer Statement (if the Tender Offeror has included the condition referred to in item (ii), this is only if the Ownership Ratio of Share Certificates, etc. (meaning Ownership Ratio of Share Certificates, etc. as defined in Article 27-2, paragraph (8)), in terms of the Share Certificates, etc. that the Tender Offeror will hold after the Tender Offer (if the Tender Offeror has a Specially Related Party as specified in Article 27-2, paragraph (1), item (i), the Ownership Ratio of Share Certificates, etc. as defined in Article 27-2, paragraph (8) in terms of the Share Certificates, etc. that Specially Related Party holds is added to calculate this) will be below the proportion specified by Cabinet Order)" is deemed to be replaced with "has included the condition specified in item (ii) below in the Public Notice of the Commencement of the Tender Offer and in the Tender Offer Statement"; in

Article 27-14, paragraph (1), the phrase "Tender Offer Report, the Target Company's Position Statement, and the Tender Offeror's Answer (including any amended report in connection with them" is deemed to be replaced with "and a Tender Offer Report (including any amended report in connection with it"; in Article 27-14, paragraph (3), the phrase ", Article 27-10, paragraph (9) (including as applied mutatis mutandis pursuant to Article 27-10, paragraph (10)) and Article 27-10, paragraph (13) (including as applied mutatis mutandis pursuant to Article 27-10, paragraph (14)) at" is deemed to be replaced with "at"; in Article 27-14, paragraph (5), item (i), the phrase "Article 27-8, paragraph (3)" is deemed to be replaced with "Article 27-8, paragraph (3) as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)"; in Article 27-14, paragraph (5), item (ii), the phrase "Article 27-10, paragraph (8) or (12), or paragraph (3) of the preceding Article" is deemed to be replaced with "Article 27-22-2, paragraph (7)"; in Article 27-15, paragraph (1), the phrase ", Tender Offer Report, Target Company's Position Statement, or Tender Offeror's Answer" is deemed to be replaced with "or Tender Offer Report"; in Article 27-15, paragraph (2), the phrase "Tender Offeror, etc. and the Target Company" is deemed to be replaced with "Tender Offeror, etc."; and in paragraph (1) of the preceding Article, the phrase "a person that that is found to be required to purchase, etc. Share Certificates, etc. through a Tender Offer pursuant to the main clause of Article 27-2, paragraph (1), a Specially Related Party of either of these persons" is deemed to be replaced with "a person that is found to be required to purchase, etc. Listed Share Certificates, etc. through a Tender Offer pursuant to the main clause of Article 27-22-2, paragraph (1)".

(3) The provisions of Article 27-3, paragraph (4) apply mutatis mutandis if an amended statement is submitted pursuant to Article 27-8, paragraphs (1) to (4) inclusive as applied mutatis mutandis pursuant to the preceding paragraph. In this case, in the first sentence of Article 27-3, paragraph (4), the phrase "the Tender Offeror shall send a copy of the Tender Offer Statement to the Issuer of the Share Certificates, etc. involved in the Tender Offer (and to any person that has already submitted a Tender Offer Statement for the Share Certificates, etc. of that Issuer as of the day on which the Tender Offeror submits the Tender Offer Statement), and, if the Share Certificates, etc. involved in the Tender Offer fall under a category set forth in one of the following items, the Tender Offeror must also send a copy of the Tender Offer Statement to the person specified in the relevant item for the category of Share Certificates, etc. set forth in that item" is deemed to be replaced with "the Tender Offeror, for the categories of Listed Share Certificates, etc. set forth in the following items, shall send the person set forth in the relevant item a copy of the Tender Offer Statement, and shall also send a copy of the Tender Offer Statement to any person that has already submitted a Tender Offer Statement for Share

Certificates, etc. of which the Tender Offeror is the Issuer, as of the day on which it submits the amended statement"; and in the items of Article 27-3, paragraph (4), the term "Share Certificates, etc." is deemed to be replaced with "Listed Share Certificates, etc."

- (4) A Tender Offeror (meaning Tender Offeror as defined in Article 27-3, paragraph (2) as applied mutatis mutandis pursuant to paragraph (2); hereinafter the same applies in this Section), immediately after submitting a Written Tender Offer Withdrawal Notice (meaning a Written Tender Offer Withdrawal Notice as defined in Article 27-11, paragraph (3) as applied mutatis mutandis pursuant to paragraph (2); hereinafter the same applies in this Section) or Tender Offer Report (meaning a Tender Offer Report as defined in Article 27-13, paragraph (2) as applied mutatis mutandis pursuant to paragraph (2); hereinafter the same applies in this Section), shall send a copy of the Written Tender Offer Withdrawal Notice or Tender Offer Report to the person specified in the relevant item of Article 27-3, paragraph (4) for the category of Listed Share Certificates, etc. set forth in that item. The necessary particulars relevant to the sending of those copies in such a case are specified by Cabinet Office Ordinance.
- (5) If the purchase, etc. period in a Tender Offer is required to be extended pursuant to Article 27-8, paragraph (8) as applied mutatis mutandis pursuant to paragraph (2), the provisions of Article 27-5 apply mutatis mutandis until the last day of the required period of extension. In this case, in Article 27-5, the term "Share Certificates, etc." is deemed to be replaced with "Listed Share Certificates, etc." and the phrase "the following cases" is deemed to be replaced with "the cases specified by Cabinet Order".
- (6) The provisions of Article 27-7 apply mutatis mutandis to a public notice or public announcement under Article 27-8, paragraphs (8) and (11) as applied mutatis mutandis pursuant to paragraph (2).
- (7) The provisions of Article 27-8, paragraphs (1) to (5) inclusive apply mutatis mutandis to a Tender Offer Report. In this case, in Article 27-8, paragraph (1), the term "amended statement" is deemed to be replaced with "amended report"; in Article 27-8, paragraph (2), the phrase "submitted and before the last day of the Tender Offer period, the Terms of Purchase, etc. change (other than an extension of the purchase, etc. period under Article 27-10, paragraph (3)), any other material particular that is required to be stated in a Tender Offer Statement changes, or any other circumstance specified by Cabinet Office Ordinance arises that requires the Tender Offer Statement to be amended" is deemed to be replaced with "submitted, the number of Listed Share Certificates, etc. for which a purchase, etc. will be effected is fixed by the Pro Rata Method set forth in Article 27-13, paragraph (5) as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2) on or after the day on

which the Tender Offer Statement is submitted" and the term "amended statement" is deemed to be replaced with "amended report"; in Article 27-8, paragraph (3), the term "amended statement" is deemed to be replaced with "amended report", the phrase "the Terms of Purchase, etc. stated in the Tender Offer Statement do not comply with the provisions of this Section" is deemed to be replaced with "the delivery and other settlement methods for the purchase, etc. stated in the Tender Offer Statement do not comply with Article 27-13, paragraph (4) (excluding 27-13, paragraph (4), item (i)) and Article 27-13, paragraph (5) as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)", and the phrase "the change in the Terms of Purchase, etc. that is stated in the amended statement violates Article 27-6, paragraph (1)" is deemed to be replaced with "the result of calculation stated in the amended statement for deciding the number of Listed Share Certificates, etc. to purchase, etc., contravenes the pro rata method specified by the Cabinet Office Ordinance set forth in Article 27-13, paragraph (5) as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)"; in Article 27-8, paragraph (4), the term "amended statement" is deemed to be replaced with "amended report"; in Article 27-8, paragraph (5), the phrase "disposition under paragraph (3)" is deemed to be replaced with "disposition under paragraph (3) or the preceding paragraph as applied mutatis mutandis pursuant to Article 27-22, paragraph (7)", and the phrase "the last day of the Tender Offer period (including the period by which it is required to be extended under paragraph (8); the same applies in paragraph (7)) (or, for a disposition resulting in an amended statement being submitted after the last day of the Tender Offer period, after the day on which five years have elapsed since the day following the last day of the Tender Offer period), and the disposition under the preceding paragraph may not be reached after the day on which five years have elapsed since the day following the last day of the Tender Offer period" is deemed to be replaced with "the day on which five years have elapsed since the day following the last day of the Tender Offer period".

- (8) The provisions of paragraph (4) apply mutatis mutandis to an amended report provided for in Article 27-8, paragraphs (1) to (4) inclusive as applied mutatis mutandis pursuant to the preceding paragraph. In this case, in Article 27-8, paragraph (4), the phrase "Written Tender Offer Withdrawal Notice (meaning a Written Tender Offer Withdrawal Notice as defined in Article 27-11, paragraph (3) as applied mutatis mutandis pursuant to paragraph (2); hereinafter the same applies in this Section) or Tender Offer Report (meaning a Tender Offer Report as defined in Article 27-13, paragraph (2) as applied mutatis mutandis pursuant to paragraph (2); hereinafter the same applies in this Section)" is deemed to be replaced with "amended report (meaning an amended report provided for in Article 27-8, paragraphs (1) to (4) inclusive as

applied mutatis mutandis pursuant to paragraph (7)" and the phrase "the Written Tender Offer Withdrawal Notice or Tender Offer Report" is deemed to be replaced with "the amended report".

- (9) The provisions of Article 16 apply mutatis mutandis to a person that violates the provisions of Article 27-3, paragraph (3) or Article 27-8, paragraph (7) as applied mutatis mutandis pursuant to paragraph (2) in performing the act specified by Cabinet Office Ordinance or that violates the provisions of Article 27-9, paragraph (2) or (3) as applied mutatis mutandis pursuant to paragraph (2) in effecting a purchase, etc. of Listed Share Certificates, etc. In this case, in Article 16, the term "the person that acquires the Securities" is deemed to be replaced with "the person that sells, etc. its Listed Share Certificates, etc. in response to the Tender Offer".
- (10) The provisions of Article 17 apply mutatis mutandis to a person that has caused a person to sell, etc. its Listed Share Certificates, etc. through the use of a Tender Offer Explanation (meaning Tender Offer Explanation as defined in Article 27-9, paragraph (1) as applied mutatis mutandis pursuant to paragraph (2); hereinafter the same applies in this Section) or other representation that contains a false statement about a material particular, omits a representation as to a material particular that is required to be represented, or omits a representation of material fact that is necessary to prevent it from being misleading. In this case, in Article 17, the phrase "the person that acquires the Securities" is deemed to be replaced with "the person that sells, etc. its Listed Share Certificates, etc. in response to the Tender Offer".
- (11) The provisions of Article 18, paragraph (1) apply mutatis mutandis to the following persons. In this case, in Article 18, paragraph (1), both of the phrases "person that acquires the Securities through the Public Offering or Secondary Distribution" and "person that acquires the Securities" are deemed to be replaced with "person that sells, etc. its Listed Share Certificates, etc. in response to the Tender Offer", and the term "at the time the person offers to acquire the Securities" is deemed to be replaced with "at the time the person sells, etc. its Listed Share Certificates":
- (i) a person that issues a Public Notice of the Commencement of a Tender Offer as defined in Article 27-3, paragraph (2) as applied mutatis mutandis pursuant to paragraph (2), or a public notice or public announcement under Article 27-6, paragraph (2) or (3); Article 27-7, paragraph (1) or (2); or Article 27-8, paragraph (8) or (11) as applied mutatis mutandis pursuant to paragraph (2); or Article 27-7, paragraph (1) or (2) as applied mutatis mutandis pursuant to paragraph (6) (collectively referred to as a "Public Notice of the Commencement of the Tender Offer, etc." in the following paragraph) that contains a false representation about a material particular,

- omits a representation as to a material particular that is required to be represented, or omits a representation of material fact that is necessary to prevent it from being misleading;
- (ii) a person that submits a Tender Offer Statement as defined in Article 27-3, paragraph (2) as applied mutatis mutandis pursuant to paragraph (2) (including any amended statement in connection with it; the same applies in the following paragraph) that contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading; or
- (iii) a person that prepares a Tender Offer Explanation (including a Tender Offer Explanation amended pursuant to Article 27-9, paragraph (3) as applied mutatis mutandis pursuant to paragraph (2); the same applies in the following paragraph) that contains a false statement about a material particular, omits a statement as to a material particular that is required to be stated, or omits a statement of material fact that is necessary to prevent it from being misleading.
- (12) In a case to which Article 18, paragraph (1) is applicable as applied mutatis mutandis pursuant to the preceding paragraph, an officer of the Issuer at the time of its submission of a Public Notice of the Commencement of the Tender Offer, etc. or Tender Offer Statement, or at the time of the preparation of the Tender Offer Explanation is jointly and severally liable with the Issuer for compensation under the preceding paragraph; provided, however, that this does not apply if the officer proves that that officer did not know, and in the exercise of reasonable care could not have known, that the statement was false or had been omitted.
- (13) In a case referred to in paragraph (2), (3), or (5) to (11) inclusive, beyond what is provided for in those provisions, any other necessary technical replacement of terms is specified by Cabinet Order.

(Disclosure of a Material Fact About Business)

Article 27-22-3 (1) If a material fact has occurred with regard to a company that seeks to purchase, etc. Listed Share Certificates, etc. through a Tender Offer provided for in paragraph (1) of the preceding Article (meaning a material fact about its business which is provided for in Article 166, paragraph (1) (excluding those specified by Cabinet Office Ordinance); hereinafter the same applies in this and the following Articles), and this has not been disclosed as provided for in Article 166, paragraph (1), the company must disclose that material fact pursuant to the provisions of Cabinet Office Ordinance before the day on which it submits the Tender Offer Statement (meaning a Tender Offer Statement as defined in Article 27-3, paragraph (2) as applied mutatis

mutandis pursuant to paragraph (2) of the preceding Article; hereinafter the same applies in this and the following Articles).

- (2) If a purchase, etc. of Listed Share Certificates, etc. is effected through a Tender Offer as provided for in paragraph (1) of the preceding Article, and any new material fact occurs at the company that is the Tender Offeror (including if it becomes clear that a material fact had occurred before the day on which the Tender Offeror submitted the Tender Offer Statement, but that this has not been disclosed as provided for in Article 166, paragraph (1)) between the day on which it submits the Tender Offer Statement and the last day of the Tender Offer period (including the period by which it is required to be extended pursuant to Article 27-8, paragraph (8) as applied mutatis mutandis pursuant to paragraph (4) of this Article; the same applies in the following Article) as defined in Article 27-5 as applied mutatis mutandis pursuant to paragraph (2) of the preceding Article, the company must immediately disclose the material fact and notify persons that have accepted the offer to purchase, etc. Listed Share Certificates, etc. through the Tender Offer, persons that have offered to sell, etc. their Listed Share Certificates, etc. in connection with the Tender Offer, and persons seeking to sell, etc. such Listed Share Certificates, etc., of the content of what it has disclosed, pursuant to the provisions of Cabinet Office Ordinance .
- (3) Once the period specified by Cabinet Order has elapsed after the disclosure under the preceding two paragraphs is made, the disclosure prescribed in Article 166, paragraph (1) is deemed to have been made.
- (4) The provisions of Article 27-8, paragraphs (8) and (9) apply mutatis mutandis to the disclosure under paragraph (2). In this case, in Article 27-8, paragraph (8), the phrase "If an amended statement under paragraph (1) or (2) is submitted or an order to submit an amended statement under paragraph (3) or (4) is issued during the Tender Offer period, except in a case specified by Cabinet Office Ordinance" is deemed to be replaced with "If a material fact is required to be disclosed pursuant to Article 27-22-3, paragraph (2)"; and in Article 27-8, paragraph (9), the phrase "the preceding paragraph" is deemed to be replaced with "the preceding paragraph as applied mutatis mutandis pursuant to Article 27-22-3, paragraph (4)" and the term "Share Certificates, etc." is deemed to be replaced with "Listed Share Certificates, etc.".
- (5) If the purchase, etc. period in a Tender Offer is required to be extended pursuant to Article 27-8, paragraph (8) as applied mutatis mutandis pursuant to the preceding paragraph, the provisions of Article 27-5 apply mutatis mutandis until the last day of the required period of extension. In this case, in Article 27-5, the term "Share Certificates, etc." is deemed to be replaced with "Listed Share Certificates, etc." and the phrase "the following cases" is deemed to be replaced with "the cases specified by Cabinet Order".

- (6) The provisions of Article 18, paragraph (1) apply mutatis mutandis to a company that issues a public notice or public announcement under Article 27-8, paragraph (8) as applied mutatis mutandis pursuant to paragraph (4), which contains a false representation with regard to a material particular, omits a representation as to a material particular that is required to be represented, or omits a representation of material fact that is necessary to prevent it from being misleading. In this case, in Article 18, paragraph (1), both the phrase "person that acquires the Securities through the Public Offering or Secondary Distribution" and the phrase "person that acquires the Securities" are deemed to be replaced with "person that sells, etc. the Listed Share Certificates, etc. in response to the Tender Offer", and the phrase "at the time the person offers to acquire the Securities" is deemed to be replaced with "at the time the person sells, etc. the Listed Share Certificates".
- (7) In a case to which Article 18, paragraph (1) is applicable as applied mutatis mutandis pursuant to the preceding paragraph, an officer of a company at the time the company issues a public notice or public announcement provided for in the preceding paragraph is jointly and severally liable with the company for compensation under the preceding paragraph; provided, however, that this does not apply if the officer proves that the officer did not know, and in the exercise of reasonable care could not have known, that the statement was false or had been omitted.
- (8) The provisions of Article 27-17 apply mutatis mutandis if a person violates the provisions of Article 27-5 as applied mutatis mutandis pursuant to paragraph (5) in purchasing, etc. Listed Share Certificates, etc. In this case, in Article 27-17, the term "Share Certificates, etc." is deemed to be replaced with "Listed Share Certificates, etc.", and any other necessary technical replacement of terms is specified by Cabinet Order.

(Compensatory Liability for Damage Due to Failure to Disclose or False Disclosure)

- Article 27-22-4 (1) A company that fails to make a disclosure or issue a notice under paragraph (1) or (2) of the preceding Article (hereinafter collectively referred to as "Disclosure" in this Article) with regard to a material fact requiring Disclosure, or a company that makes a false Disclosure with regard to such a fact, is liable to compensate a person that sells, etc. its Listed Share Certificates, etc. in response to the Tender Offer, for damage arising from the company's failure to make Disclosure or from its false Disclosure; provided, however, that this does not apply in the following cases:
- (i) the person that sells, etc. the Listed Share Certificates, etc. in response to the Tender Offer knows that the material fact has occurred at the company or knows that the content of the Disclosure is false; or

- (ii) the company proves that it did not know that the material fact had occurred at said company or that the content of the Disclosure was false, and that in the exercise of reasonable care it could not have known this at the time of the Tender Offer (meaning when the Public Notice of the Commencement of the Tender Offer is submitted, in terms of disclosure under paragraph (1) of the preceding Article, or the period between when the Public Notice of the Commencement of the Tender Offer is submitted and the last day of the Tender Offer period, in terms of the disclosure or notice under Article 27-22-3, paragraph (2); the same applies in the following paragraph).
- (2) In a case to which the main clause of the preceding paragraph is applicable, an officer of a company at the time of a Tender Offer is jointly and severally liable with the company for compensation under the preceding paragraph; provided, however, that this does not apply if the officer proves that the officer did not know that the material fact had occurred at the company or that the content of the Disclosure was false, and in the exercise of reasonable care could not have known this at the time of the Tender Offer.

### **Chapter II-3 Disclosure of the Status of Large-Volume Holdings in Share Certificates, etc.**

(Submission of Statements of Large-Volume Holdings)

Article 27-23 (1) A holder of Subject Securities (including what is specified by Cabinet Order as indicating a right connected to Securities set forth in Article 2, paragraph (1), item (xix) and other Securities specified by Cabinet Order that indicate an Option on Subject Securities (limited to an Option that causes the person that exercises it to acquire the position of the buyer in a purchase and sale of the Subject Securities linked to the Option (hereinafter collectively referred to as "Share Certificates, etc." in this Chapter and Article 27-30-11, paragraph (4))) issued by a corporation (or, with regard to the Securities specified by Cabinet Office Ordinance, a person specified by Cabinet Office Ordinance; hereinafter the same applies in this Chapter and Article 27-30-11, paragraph (4), except for Article 27-30, paragraph (2)) that is the Issuer of share certificates, corporate bond certificates with share options, and other Securities specified by Cabinet Order (hereinafter referred to as the "Share-related Securities" in this paragraph) that are listed on a Financial Instruments Exchange (including the Share-related Securities specified by Cabinet Order as having equivalent distribution statuses to said Securities), and whose Ownership Ratio of Share Certificates, etc. with respect to the relevant Share Certificates, etc. exceeds five percent (such a holder is hereinafter referred to as a "Large-Volume Holder" in this Chapter) must submit a statement in which it states the particulars of its Ownership Ratio of

Share Certificates, etc., the particulars of the funds for the acquisition, the purpose of the holdings, and any other particulars specified by Cabinet Office Ordinance (such a statement is hereinafter referred to as a "Statement of Large-Volume Holdings") to the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, within five days from the date on which it becomes a Large-Volume Holder (Sundays and other holidays specified by Cabinet Order are not included for the purpose of counting days; the same applies in Article 27-25, paragraph (1) and Article 27-26); provided, however, that this does not apply if the total number of Share Certificates, etc. held which are provided for in paragraph (4) does not increase, nor does it apply in any other case specified by Cabinet Office Ordinance.

- (2) The term "Subject Securities" as used in the preceding paragraph means the share certificates, corporate bond certificates with share options, and other Securities specified by Cabinet Order.
- (3) The holder referred to in paragraph (1) includes the following persons, in addition to persons that own Share Certificates, etc. in their own names or in the name of another person (or under a fictitious name) (including a person that holds the right to request the delivery of Share Certificates, etc. under a purchase and sale contract or any other contract, or any other person specified by Cabinet Order as being equivalent); provided, however, that the person set forth in item (i) is deemed to become a holder on the day on which that person comes to know that the person has the authority prescribed in that item, only within the scope of the Share Certificates, etc. (including the Securities set forth in Article 2, paragraph (1), item (xx) indicating the rights to Share Certificates, etc., and other Securities specified by Cabinet Office Ordinance; hereinafter the same applies in this paragraph and the following Article) regarding which the person comes to know that said that person has that authority:
  - (i) a person that has the authority to exercise voting rights or any other rights as a shareholder in the Issuer of the Share Certificates, etc., or to give instructions as to the exercise of said voting rights or any other rights, based on a money trust contract or any other contract or the provisions of the law (except for a person that falls under the following item), and that has the aim of controlling the business activities of said Issuer; or
  - (ii) a person that has the necessary authority to invest in Share Certificates, etc., based on a Discretionary Investment Contract or any other contract or the provisions of the law.
- (4) The term " Ownership Ratio of Share Certificates, etc." as used in paragraph (1) means the ratio arrived at when the number of Share Certificates, etc. issued by the Issuer of the relevant Share Certificates, etc., which the holder (meaning a holder as set forth in paragraph (1); hereinafter the same applies in

this Chapter) is obligated to transfer (excluding those that the holder is obligated to transfer to a Joint Holder) due to having acquired them through a margin transaction provided for in Article 161-2, paragraph (1) or any other transaction method specified by Cabinet Office Ordinance, is deducted from the total number of Share Certificates, etc. (excluding the Share Certificates, etc. that are specified by Cabinet Office Ordinance in consideration of the manner in which they are held or any other circumstance; hereinafter the same applies in this paragraph) held by the holder of the relevant Share Certificates, etc. (meaning the number of represented shares, if they are share certificates, or the number specified by Cabinet Office Ordinance, if they are other Securities; hereinafter the same applies in this Chapter) (this includes if the holder has the authority set forth in the items of the preceding paragraph with regard to those Share Certificates, etc.; hereinafter the same applies in this Chapter) (the number of Share Certificates, etc. after this deduction is hereinafter referred to as the "Number of Share Certificates, etc. Held" in this Chapter); the Number of Share Certificates, etc. Held by Joint Holders of the Share Certificates, etc. issued by that Issuer (excluding those for which a right to request delivery or any other right specified by Cabinet Order exists between the holder and a Joint Holder) is added (the number of Share Certificates, etc. after this addition is hereinafter referred to as the "Total Number of Share Certificates, etc. Held" in this Chapter); and this is divided by the sum of either the total number of the Issuer's issued shares or the number specified by Cabinet Office Ordinance as being equivalent to this, and the number of Share Certificates, etc. that are held by the holder and the Joint Holders (excluding share certificates and other Securities that are specified by Cabinet Office Ordinance).

(5) The term "Joint Holder" as used in the preceding paragraph means the other holder of the relevant Share Certificates, etc., in a case in which the holder of Share Certificates, etc. has agreed to jointly acquire or transfer said Share Certificates, etc., or to jointly exercise voting rights and other rights as the Issuer's shareholder, together with another holder of Share Certificates, etc. issued by the Issuer of the relevant Share Certificates, etc.

(6) If a first holder of Share Certificates, etc. and another holder of Share Certificates, etc. that are issued by the Issuer of the relevant Share Certificates, etc. are related to each other through a shareholding relationship, familial relationship, or other special relationship specified by Cabinet Order, the other holder is deemed to be a Joint Holder referred to in paragraph (4) in relation to that holder; provided, however, that this does not apply if the Number of Share Certificates, etc. Held by either the first holder or the other holder is the number specified by Cabinet Office Ordinance or less.

(Preparation and Delivery of a Written Notice of Shareholding Status)

Article 27-24 A person set forth in paragraph (3), item (ii) of the preceding Article, pursuant to the provisions of Cabinet Office Ordinance, shall prepare a written notice that accounts for the status of holdings in the relevant Share Certificates, etc. and deliver it to customers that have the authority to exercise their voting rights or any other rights as shareholders in the Issuer of those Share Certificates, etc. or to give instructions as to the exercise of their voting rights or any other rights, at least once a month.

(Submission of a Statement of Changes to a Statement of Large-Volume Holdings)

Article 27-25 (1) If, after the day on which a person that is required to submit a Statement of Large-Volume Holdings has become a Large-Volume Holder, the Ownership Ratio of Share Certificates, etc. (meaning the Ownership Ratio of Share Certificates, etc. set forth in Article 27-23, paragraph (4); hereinafter the same applies in this Chapter) has increased or decreased by one percent or more (unless this is not linked to an increase or decrease in the Total Number of Share Certificates, etc. Held by said person; hereinafter the same applies in this Chapter), or if there has been any other change that is specified by Cabinet Order as a change in a material particular that is required to be stated in the Statement of Large-Volume Holdings, such person must submit a report on the particulars of the change (hereinafter referred to as a "Statement of Changes") to the Prime Minister, within five days after the day of the change, pursuant to the provisions of Cabinet Office Ordinance; provided, however, that this does not apply if a Statement of Changes has already been submitted due to a decrease of one percent or more in the Ownership Ratio of Share Certificates, etc., and in this it is stated that the Ownership Ratio of Share Certificates, etc. is five percent or less, nor does it apply in other cases specified by Cabinet Office Ordinance.

(2) In a case that falls under the criteria specified by Cabinet Order as a case in which a large number of Share Certificates, etc. have been transferred within a short period, a person that submits a Statement of Changes due to a decrease in the Ownership Ratio of Share Certificates, etc. must also state in said Statement of Changes the particulars of the party to which the Share Certificates, etc. have been transferred and the consideration received, pursuant to the provisions of Cabinet Office Ordinance.

(3) Notwithstanding the provisions of the main clause of paragraph (1), if, by the day before that on which a person submits a Statement of Large-Volume Holdings or a Statement of Changes, any cause requiring the person to submit a new Statement of Changes has arisen, the person must submit the new Statement of Changes to the Prime Minister at the same time as the person

submits these unsubmitted documents.

- (4) If a person that has submitted a Statement of Large-Volume Holdings or a Statement of Changes finds that its content conflicts with the facts of the matter, that such a document insufficiently states or omits a statement as to a material particular that is required to be stated, or that such a document insufficiently states or omits a statement as to a material fact that is necessary to prevent it from being misleading, said person shall submit an amended report to the Prime Minister.

(Special Provisions for Statements by Large-Volume Holders of Share Certificates, etc. Subject to Special Provisions)

- Article 27-26 (1) Notwithstanding the provisions of the main clause of Article 27-23, paragraph (1), a Statement of Large-Volume Holdings in Share Certificates, etc. that a Financial Services Provider (limited to one that engages in Type I Financial Instruments Business provided for in Article 28, paragraph (1), or that engages in Investment Management provided for in paragraph (4) of that Article; hereinafter the same applies in this Article), a bank, or any other person specified by Cabinet Office Ordinance (limited to one that has notified the Prime Minister of the reference date provided for in paragraph (3)) holds, but which it does not hold for the purpose of performing an act specified by Cabinet Order as something that materially changes or materially influences the business activities of the Issuer of said Share Certificates, etc. (such an act is referred to as a "Material Proposal" in paragraphs (4) and (5)) (unless the Ownership Ratio of Share Certificates, etc. exceeds the ratio specified by Cabinet Office Ordinance and excluding any other cases that are specified by Cabinet Office Ordinance in consideration of the manner in which the Share Certificates, etc. are held and other circumstances), or which are held by the State, local government, or any other person specified by Cabinet Office Ordinance (limited to those that have notified the Prime Minister of the reference date provided for in paragraph (3)) (such Share Certificates, etc. are hereinafter collectively referred to as "Share Certificates, etc. Subject to Special Provisions" in this Article) must be submitted to the Prime Minister with a statement of the particulars specified by Cabinet Office Ordinance with regard to the status of Share Certificate, etc. holdings as of the reference date on which the Ownership Ratio of Share Certificates, etc. comes to exceed five percent for the first time, within five days from said reference date, pursuant to the provisions of Cabinet Office Ordinance.
- (2) Notwithstanding the provisions of the main clause of Article 27-25, paragraph (1), a Statement of Changes for Share Certificates, etc. Subject to Special Provisions (excluding a Statement of Changes for a change that occurs if the relevant Share Certificates, etc. come to fall under a category other than Share

Certificates, etc. Subject to Special Provisions) must be submitted to the Prime Minister by the date that is specified in the relevant of the following items for the category of cases set forth in that item, pursuant to the provisions of Cabinet Office Ordinance:

- (i) if the Ownership Ratio of Share Certificates, etc. as of the reference date that comes after the reference date of the Statement of Large-Volume Holdings set forth in the preceding paragraph increases or decreases by one percent or more from the Ownership Ratio of Share Certificates, etc. that is stated in said Statement of Large-Volume Holdings, or if there has been any other change that is specified by Cabinet Order as a change in a material particular that is required to be stated in said Statement of Large-Volume Holdings: within five days from the later reference date;
  - (ii) if the Ownership Ratio of Share Certificates, etc. as of the reference date that comes after the reference date of the Statement of Changes increases or decreases by one percent or more from the Ownership Ratio of Share Certificates, etc. that was stated in said Statement of Changes, or if there has been any other change that is specified by Cabinet Order as a change in a material particular that is required to be stated in the Statement of Large-Volume Holdings: within five days from the later reference date;
  - (iii) if the Ownership Ratio of Share Certificates, etc. falls below the ratio specified by Cabinet Office Ordinance, and the relevant Share Certificates, etc. have become Share Certificates, etc. Subject to Special Provisions: within five days from the date on which the Share Certificates, etc. become Share Certificates, etc. Subject to Special Provisions; and
  - (iv) a case specified by Cabinet Office Ordinance as being equivalent to any of the preceding three items: the date specified by Cabinet Office Ordinance.
- (3) The reference date referred to in the preceding two paragraphs means the date on which a Holder of Share Certificates, etc. Subject to Special Provisions notifies the Prime Minister pursuant to the provisions of Cabinet Office Ordinance, from among the combinations of two or more days in each month designated pursuant to the provisions of Cabinet Order.
- (4) Notwithstanding the provisions of paragraph (1), if the Financial Services Provider, bank, or other person specified by Cabinet Office Ordinance provided for in that paragraph makes a Material Proposal within a period specified by Cabinet Order from the date on which the Ownership Ratio of Share Certificates, etc. comes to exceed five percent, it must submit the Statement of Large-Volume Holdings referred to in that paragraph to the Prime Minister by five days prior to the date on which it makes the Material Proposal, pursuant to the provisions of Cabinet Office Ordinance.
- (5) Notwithstanding the provisions of paragraph (2), if the Ownership Ratio of Share Certificates, etc. of the Financial Services Provider, bank, or other

person specified by Cabinet Office Ordinance provided for in paragraph (1) increases by one percent or more after the submission of the Statement of Large-Volume Holdings referred to in that paragraph or the Statement of Changes referred to in paragraph (2), and if it makes a Material Proposal within the period specified by Cabinet Order from the date of the increase, it must submit the Statement of Changes referred to in that paragraph to the Prime Minister by five days prior to the date on which it makes the Material Proposal, pursuant to the provisions of Cabinet Office Ordinance.

(6) The provisions of paragraph (4) of the preceding Article apply mutatis mutandis to the Statement of Large-Volume Holdings referred to in paragraph (1) or (4), or the Statement of Changes referred to in paragraph (2) or the preceding paragraph.

(Submission of a Copy of a Statement of Large-Volume Holdings, etc. to a Financial Instruments Exchange, etc.)

Article 27-27 If a Holder of Share Certificates, etc. has submitted a Statement of Large-Volume Holdings, Statement of Changes, or amended reports in connection with them, said holder must send the copies of these documents without delay to the Issuer of the relevant Share Certificates, etc., and to the person specified in the relevant of the following items for the category of Share Certificates, etc. set forth in that item:

- (i) Share Certificates, etc. issued by an Issuer of Share Certificates, etc. listed on a Financial Instruments Exchange: said Financial Instruments Exchange; and
- (ii) Share Certificates, etc. issued by an Issuer of Share Certificates, etc., which are specified by Cabinet Order as having equivalent distribution statuses to the Share Certificates, etc. set forth in the preceding item: the Authorized Financial Instruments Business Association specified by Cabinet Order.

(Public Inspection of Statements of Large-Volume Holdings)

Article 27-28 (1) The Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, must make Statements of Large-Volume Holdings and Statements of Changes, as well as amended reports in connection with them, available for public inspection for five years from the day on which the Prime Minister accepts these documents.

(2) Pursuant to the provisions of Cabinet Office Ordinance, Financial Instruments Exchanges and the Authorized Financial Instruments Business Associations specified by Cabinet Order must keep at their offices the copies of the documents prescribed in the preceding paragraph that have been sent to them pursuant to the provisions of the preceding Article (hereinafter referred to as "Public Documents" in this Article), and must make copies of them

available for public inspection for five years from the day on which they receive those copies of the Public Documents.

- (3) Notwithstanding the provisions of paragraph (1), with regard to the particulars of funds for acquisition as stated in a Public Document, if said funds have been borrowed from a bank, Cooperative Financial Institution, or any other financial institution specified by Cabinet Order (hereinafter collectively referred to as a "Bank, etc." in this paragraph) (excluding the cases specified by Cabinet Office Ordinance), the Prime Minister is not to make the name of the Bank, etc. available for public inspection, and the person that has submitted the Public Documents is to delete the name of the Bank, etc. before sending the copy of the Public Document.
- (4) Notwithstanding the provisions of paragraph (1), if the Prime Minister issues a submission order for an amended report under Article 9, paragraph (1) or Article 10, paragraph (1) as applied mutatis mutandis pursuant to paragraph (1) of the following Article, the Prime Minister may decide not to make all or part of the Public Document that is connected with the order available for public inspection.
- (5) In a case referred to in the preceding paragraph, the Prime Minister is to notify a Large-Volume Holder, and the Financial Instruments Exchange or the Authorized Financial Instruments Business Association specified by Cabinet Order that is referred to in paragraph (2), that makes copies of Public Documents available for public inspection pursuant to the provisions of paragraph (2), that the Prime Minister has decided that all or part of the Public Document will not be made available for public inspection.
- (6) If a Financial Instruments Exchange or an Authorized Financial Instruments Business Association receives a notice from the Prime Minister pursuant to the provisions of the preceding paragraph, the provisions of paragraph (2) do not apply after that time to the Public Document to which the notice pertains.

(Order to Submit an Amended Report in Connection with a Statement of Large-Volume Holdings, etc.)

- Article 27-29 (1) The provisions of Article 9, paragraph (1) and Article 10, paragraph (1) apply mutatis mutandis to Statements of Large-Volume Holdings and Statements of Changes. In this case, in Article 10, paragraph (1), the phrase "to submit an amended statement, and if the Prime Minister finds it to be necessary, the Prime Minister may order the suspension of the validity of a notification under Article 4, paragraphs (1) to (3) inclusive" is deemed to be replaced with "to submit an amended statement".
- (2) The provisions of the preceding two Articles apply mutatis mutandis if an amended report in connection with a Statement of Large-Volume Holdings or a Statement of Changes has been submitted pursuant to the provisions of Article

9, paragraph (1) or Article 10, paragraph (1), as applied mutatis mutandis pursuant to the preceding paragraph.

(Collection of Reports and Inspection of a Person Submitting a Statement of Large-Volume Holdings, etc.)

Article 27-30 (1) Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a person that has submitted a Statement of Large-Volume Holdings, a person that is found to be required to submit the same, a Joint Holder (meaning a Joint Holder as prescribed in Article 27-23, paragraph (5)) of either of such persons, or any other concerned party or witness to submit reports or materials that should serve as a reference, and may have the relevant officials inspect that person's books and documents or any other articles.

(2) Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order the company that is the Issuer of Share Certificates, etc. to which a Statement of Large-Volume Holdings pertains or a witness, to submit reports or materials that should serve as a reference.

#### **Chapter II-4 Special Provisions, etc. on Carrying Out Procedures Via an Electronic Data Processing System for Disclosure**

(Definition of Electronic Data Processing Systems for Disclosure)

Article 27-30-2 The term "Electronic Data Processing System for Disclosure" as used in this Chapter means an electronic data processing system through which a computer used by the Cabinet Office (including its input and output devices; hereinafter the same applies in this Chapter), and the input and output devices used by a person that carries out the procedures under the provisions of Article 5, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27); Article 7 (including as applied mutatis mutandis pursuant to Article 24-2, paragraph (1); Article 24-4-3, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24-4-8, paragraph (2) and Article 24-5-2, paragraph (2)); Article 24-4-5, paragraph (1); Article 24-4-7, paragraph (4); Article 24-5, paragraph (5) and Article 24-7, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27); Article 24-6, paragraph (2); and Article 27)); Article 9, paragraph (1) (excluding the second sentence of that paragraph, and including as applied mutatis mutandis pursuant to Article 24-2, paragraph (1); Article 24-4-3, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24-4-8, paragraph (2) and Article 24-5-2, paragraph (2)); Article 24-4-5, paragraph (1); Article 24-

4-7, paragraph (4); Article 24-5, paragraph (5) and Article 24-7, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27); Article 24-6, paragraph (2); and Article 27); Article 10, paragraph (1) (excluding the second sentence of that paragraph, and including as applied mutatis mutandis pursuant to Article 24-2, paragraph (1); Article 24-4-3, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24-4-8, paragraph (2) and Article 24-5-2, paragraph (2)); Article 24-4-5, paragraph (1); Article 24-4-7, paragraph (4); Article 24-5, paragraph (5) and Article 24-7, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27); Article 24-6, paragraph (2); and Article 27); Article 23-3, paragraph (1) and (4) (including as applied mutatis mutandis pursuant to Article 27); Article 23-4 (including as applied mutatis mutandis pursuant to Article 27); Article 23-7, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27); Article 23-8, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27); Article 23-9, paragraph (1) (excluding the second sentence of that paragraph, and including as applied mutatis mutandis pursuant to Article 27); Article 23-10, paragraph (1) (excluding the second sentence of that paragraph, and including as applied mutatis mutandis pursuant to Article 23-10, paragraph (5) (including as applied mutatis mutandis pursuant to Article 27); and Article 27), Article 24, paragraph (1) and (3) (including as applied mutatis mutandis pursuant to Article 24, paragraph (5) (including as applied mutatis mutandis pursuant to Article 27) and Article 27); Article 24-4-2, paragraph (1) and (2) (including as applied mutatis mutandis pursuant to Article 24-2, paragraph (3) (including as applied mutatis mutandis pursuant to Article 24-2, paragraph (4)) and Article 24-2, paragraph (4) (including as applied mutatis mutandis pursuant to Article 24-4-8, paragraph (1) and Article 24-5-2, paragraph (1), and including as applied mutatis mutandis pursuant to Article 27) and Article 27); Article 24-4-4, paragraph (1) and (2) (including as applied mutatis mutandis pursuant to Article 24-4-4, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27) and Article 27); Article 24-4-7, paragraph (1) and (2) (including as applied mutatis mutandis pursuant to Article 24-4-7, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27) and Article 27); Article 24-5, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24-5, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27); Article 24-5, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27); Article 24-6, paragraph (1); Article 24-7, paragraph (1) and (2) (including as applied mutatis mutandis pursuant to Article 24-7, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27); and Article 27); Article 25, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27); Article 27-3, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph

(2)); Article 27-8, paragraphs (1) to (4) inclusive (excluding the second sentence of paragraph (4), and including as applied mutatis mutandis pursuant to Article 27-10, paragraphs (8) and (12); Article 27-13, paragraph (3); and Article 27-22-2, paragraphs (2) and (7)); Article 27-10, paragraph (1) and (11); Article 27-11, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); Article 27-13, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); Article 27-23, paragraph (1); Article 27-25, paragraphs (1), (3), and (4); the paragraphs of Article 27-26; or the provisions of Article 9, paragraph (1) (excluding the second sentence of that paragraph) and Article 10, paragraph (1) (excluding the second sentence of that paragraph) as applied mutatis mutandis pursuant to Article 27-29, paragraph (1) (including the submission of anything that must accompany documents if they are submitted via these procedures; hereinafter referred to as "Electronic Disclosure" in this Chapter); or the procedures under Article 4, paragraph (6) (including as applied mutatis mutandis pursuant to Article 23-8, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27)), the procedures prescribed in Article 27-5, item (ii), and other procedures specified by Cabinet Order (including the submission of anything that must accompany documents if they are submitted through these procedures; hereinafter referred to as "Voluntary Electronic Disclosure" in this Chapter) are connected over a telecommunications line, or an electronic data processing system through which a computer used by the Cabinet Office and the input and output devices used by a Financial Instruments Exchange or by a Authorized Financial Instruments Business Association designated by Cabinet Order are connected over a telecommunications line.

(Use of an Electronic Data Processing System for Disclosure for Electronic Disclosure)

- Article 27-30-3 (1) A person that carries out Electronic Disclosure must use an Electronic Data Processing System for Disclosure to do so, pursuant to the provisions of Cabinet Order.
- (2) A person that carries out Voluntary Electronic Disclosure may use an Electronic Data Processing System for Disclosure to do so, pursuant to the provisions of Cabinet Order.
- (3) Electronic Disclosure or Voluntary Electronic Disclosure that is carried out pursuant to the provisions of the preceding two paragraphs is deemed to reach the Cabinet Office when it is recorded in a file stored on the computer referred to in the preceding Article (hereinafter simply referred to as the "File" in this Chapter).
- (4) Electronic Disclosure or Voluntary Electronic Disclosure that is carried out pursuant to the provisions of paragraph (1) or (2) is deemed to have been

carried out using the paper documents specified in the provisions of the Financial Instruments and Exchange Act and Related Regulations which stipulate that these procedures are to be carried out using paper documents, and the Financial Instruments and Exchange Act and Related Regulations apply.

- (5) The provisions of Article 3 of the Act on the Utilization of Information and Communications Technology in Administrative Procedures (Act No. 151 of 2002) do not apply to Electronic Disclosure and Voluntary Electronic Disclosure.

(Special Provisions for Times When an Electronic Data Processing System for Disclosure Is Unusable)

Article 27-30-4 (1) Notwithstanding the provisions of paragraph (1) of the preceding Article, if a person that carries out Electronic Disclosure is unable to carry out Electronic Disclosure through the use of an Electronic Data Processing System for Disclosure due to a failure in telecommunication lines or any other cause, the person may carry out Electronic Disclosure by submitting a magnetic disk (including anything on which it is possible to reliably record specific particulars through use of a similar means; hereinafter the same applies in this Chapter), instead of using an Electronic Data Processing System for Disclosure, with the approval of the Prime Minister and pursuant to the provisions of Cabinet Order.

- (2) If a person that carries out Voluntary Electronic Disclosure by use of an Electronic Data Processing System for Disclosure is unable to carry out Voluntary Electronic Disclosure using an Electronic Data Processing System for Disclosure due to a failure in telecommunication lines or any other cause, said person may carry out Voluntary Electronic Disclosure by submitting a magnetic disk, instead of using an Electronic Data Processing System for Disclosure, with an approval of the Prime Minister and pursuant to the provisions of Cabinet Order.

- (3) If Electronic Disclosure or Voluntary Electronic Disclosure is carried out through the submission of a magnetic disk pursuant to the provisions of the preceding two paragraphs, the Prime Minister must immediately record the particulars recorded on that magnetic disk into the File, pursuant to the provisions of Cabinet Office Ordinance. In this, the particulars recorded on the magnetic disk are deemed to reach the Cabinet Office when those particulars are recorded into the File.

- (4) The provisions of paragraph (4) of the preceding Article apply mutatis mutandis to Electronic Disclosure or Voluntary Electronic Disclosure carried out pursuant to the provisions of the preceding three paragraphs.

(Special Provisions for Times When an Electronic Data Processing System for Disclosure Malfunctions, etc.)

Article 27-30-5 (1) The provisions of Article 27-30-3, paragraph (1) do not apply to a case that falls under one of the following items, if the Prime Minister gives approval:

(i) it is found that there has been a malfunction in the computer referred to in Article 27-30-2 or there are otherwise found to be grounds specified by Cabinet Order; or

(ii) it is found to be extremely difficult for the relevant person to carry out Electronic Disclosure using an Electronic Data Processing System for Disclosure.

(2) The procedures for the approval referred to in the preceding paragraph are specified by Cabinet Office Ordinance.

(Notice in Lieu of the Submission, etc. of Copies of Documents to a Financial Instruments Exchange, etc.)

Article 27-30-6 (1) Notwithstanding the provisions of Article 6 (including as applied mutatis mutandis pursuant to Article 12; Article 23-12, paragraph (1); Article 24, paragraph (7); Article 24-2, paragraph (3); Article 24-4-2, paragraph (5) (including as applied mutatis mutandis pursuant to Article 24-4-8, paragraph (1) and Article 24-5-2, paragraph (1)); Article 24-4-3, paragraph (2) (including as applied mutatis mutandis pursuant to Article 24-4-8, paragraph (2) and Article 24-5-2, paragraph (2)); Article 24-4-4, paragraph (5); Article 24-4-5, paragraph (2); Article 24-4-7, paragraph (5) and Article 24-5, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27); Article 24-6, paragraph (3); and Article 27)); Article 24-7, paragraph (4) (including as applied mutatis mutandis pursuant to Article 24-7, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27) and Article 27); Article 27-3, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27-8, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27-13, paragraph (3)); Article 27-11, paragraph (4); Article 27-13, paragraph (3); and Article 27-22-2, paragraphs (2) and (3)); Article 27-10, paragraph (9) (including as applied mutatis mutandis pursuant to Article 27-10, paragraph (10)); and Article 27-10, paragraph (13) (including as applied mutatis mutandis pursuant to Article 27-10, paragraph (14)); Article 27-22-2, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (8)); and Article 27-27 (including as applied mutatis mutandis pursuant to Article 27-29, paragraph (2)); if a person that carries out Electronic Disclosure or Voluntary Electronic Disclosure has carried out such procedures using an Electronic Data Processing System for Disclosure (including if the person has carried out those procedures by submission of a magnetic disk), in lieu of copies

of the documents that are required to be submitted or sent to a Financial Instruments Exchange or to an Authorized Financial Instruments Business Association specified by Cabinet Order pursuant to the provisions referred to above, that person is to notify these persons of the particulars, as per the copies of those documents (excluding the parts that are not to be made available for public inspection pursuant to the provisions of Article 27-28, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27-29, paragraph (2)), that are required to be stated in the documents set forth in the items of Article 25, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27) or the documents prescribed in Article 27-14, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)) or Article 27-27 (including as applied mutatis mutandis pursuant to Article 27-29, paragraph (2)); provided, however, that the person may elect not to notify these persons of a part that is not to be made available for public inspection pursuant to the provisions of Article 25, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27).

- (2) The notice under the provisions of the preceding paragraph is deemed to have been sent by a person that has carried out the Electronic Disclosure or Voluntary Electronic Disclosure referred to in the preceding paragraph at the time it is recorded in the File, and is presumed to have reached the addressee of the notice at the time that the period normally required to output it has elapsed after its recording.

(Public Inspection When Procedures Are Carried Out by Use of an Electronic Data Processing System for Disclosure)

Article 27-30-7 (1) If Electronic Disclosure or Voluntary Electronic Disclosure has been carried out by use of an Electronic Data Processing System for Disclosure (including if such procedures have been carried out through the submission of a magnetic disk), the Prime Minister is to make the particulars (excluding the parts that are not to be made available for public inspection pursuant to the provisions of Article 25, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27) or Article 27-28, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27-29, paragraph (2)) and also excluding the Specified Portion) that have been recorded into the File in connection with the documents prescribed in Article 25, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27); Article 27-14, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); or Article 27-28, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-29, paragraph (2)), or documents stating those particulars, available for public inspection, pursuant to the provisions of Cabinet Order,.

- (2) The term "Specified Portion" as used in the preceding paragraph means the portion of a document that is not to be made available for public inspection pursuant to the provisions of Article 25, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27), Article 27-14, paragraph (5) (including as applied mutatis mutandis through the replacement of certain terms pursuant to Article 27-22-2, paragraph (2)), or Article 27-28, paragraph (4).
- (3) The provisions of Article 5 of the Act on the Utilization of Information and Communications Technology in Administrative Procedures do not apply to the public inspection of documents under the provisions of paragraph (1).
- (4) If the particulars that have been recorded into the File set forth in paragraph (1) or documents stating those particulars are made available for public inspection pursuant to the provisions of paragraph (1), the documents prescribed in Article 25, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27); Article 27-14, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); and Article 27-28, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-29, paragraph (2)) are deemed to have been made available for public inspection pursuant to those provisions, and the provisions of the Financial Instruments and Exchange Act and Related Regulations apply.
- (5) In a case referred to in paragraph (1), if the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may make an indication of having rendered a disposition set forth in one of the items of Article 25, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27) or in one of the items of Article 27-14, paragraph (5) (including as applied mutatis mutandis through the replacement of certain terms pursuant to Article 27-22-2, paragraph (2)), an indication of having issued a submission order under Article 27-28, paragraph (4), or any other information with a bearing on the particulars set forth in paragraph (1), which has a material influence on investors' investment decisions (hereinafter referred to as "Material Reference Information" in the following paragraph) available for public inspection, together with the relevant particulars.
- (6) In a case referred to in the preceding paragraph, the Prime Minister is to notify the Financial Instruments Exchange or the Authorized Financial Instruments Business Association specified by Cabinet Order referred to in paragraph (1) of the following Article, that makes the particulars set forth in that paragraph that involve Material Reference Information available for public inspection pursuant to the provisions of that paragraph, and the person that makes the particulars set forth in the relevant Article that involve Material Reference Information available for public inspection pursuant to the

provisions of Article 25, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27) and Article 27-14, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)) or Article 27-30-10, that the Material Reference Information has been made available for public inspection pursuant to the provisions of the preceding paragraph.

(Public Inspection by a Financial Instruments Exchange, etc.)

Article 27-30-8 (1) A Financial Instruments Exchange or an Authorized Financial Instruments Business Association specified by Cabinet Order which has been notified pursuant to the provisions of Article 27-30-6 is to make the particulars (excluding the parts that are not to be made available for public inspection pursuant to the provisions of Article 25, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27) and also excluding the Specified Portion (meaning the Specified Portion prescribed in paragraph (2) of the preceding Article; the same applies in Article 27-30-10) of which it has been notified pursuant to the provisions of Article 27-30-6 in connection with the copies of documents prescribed in Article 25, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27); Article 27-14, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); or Article 27-28, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-29, paragraph (2)), or the documents stating those particulars, available for public inspection, pursuant to the provisions of Cabinet Order.

(2) If particulars under a notification that is set forth in the preceding paragraph or a document stating those particulars is made available for public inspection pursuant to the provisions of that paragraph, the documents prescribed in Article 25, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27); Article 27-14, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); and Article 27-28, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-29, paragraph (2)) are deemed to have been made available for public inspection pursuant to those provisions, and the provisions of the Financial Instruments and Exchange Act and Related Regulations apply.

(Providing, etc. Persons with the Particulars Stated in a Prospectus by Means of an Electronic Data Processing System or by Other Means)

Article 27-30-9 (1) In the cases specified by Cabinet Office Ordinance, in lieu of delivering a Prospectus, a person that is required to deliver a Prospectus pursuant to the provisions of Article 15, paragraphs (2) to (4) inclusive (including as applied mutatis mutandis pursuant to Article 15, paragraph (6) (including as applied mutatis mutandis pursuant to Article 23-12, paragraph

(3) (including as applied mutatis mutandis pursuant to Article 27) and Article 27); Article 23-12, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27); and Article 27) may provide the relevant persons with the particulars that have been stated in the Prospectus by means of an electronic data processing system or by any other means specified by Cabinet Office Ordinance. In such a case, the person that provides the other person with those particulars is deemed to have delivered the Prospectus.

(2) The provisions of the preceding paragraph apply mutatis mutandis to documents that are required to be delivered pursuant to the provisions of Article 23-14, paragraph (2); to a Tender Offer Explanation (meaning a Tender Offer Explanation provided for in Article 27-9, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)), and also including an amended Tender Offer Explanation) that is required to be delivered pursuant to the provisions of Article 27-9, paragraph (2) or (3) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); and to a written notice that is required to be delivered pursuant to the provisions of Article 27-24.

(Public Inspection by the Issuer, etc.)

Article 27-30-10 In a case specified by Cabinet Office Ordinance, in lieu of making the copies of the documents that are required to be made available for public inspection pursuant to the provisions of Article 25, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27) or Article 27-14, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)) available for public inspection, the Subsidiary Company Submitting Annual Reports of a person that has carried out Electronic Disclosure for the documents set forth in Article 25, paragraph (1), items (i) to (xi) inclusive (including as applied mutatis mutandis pursuant to Article 27); the Subsidiary Company Submitting Annual Reports of a person that has carried out Electronic Disclosure for the documents set forth in Article 25, paragraph (1), item (xii) (including as applied mutatis mutandis pursuant to Article 27); or a person that has carried out Electronic Disclosure for the document prescribed in Article 27-14, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)) may make the particulars, as per the copies of those documents (excluding the parts that are not to be made available for public inspection pursuant to the provisions of Article 25, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27) and also excluding the Specified Portion), that are required to be stated in the documents set forth in each item of Article 25, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27) or the documents prescribed in Article 27-14, paragraph (1) (including as applied

mutatis mutandis pursuant to Article 27-22-2, paragraph (2)) available for public inspection by displaying those particulars on the screen of an output device or by any other means specified by Cabinet Office Ordinance. In such a case, the person that makes those particulars available for public inspection is deemed to have made the copies of those documents available for public inspection.

(Providing, etc. Persons with the Particulars Stated in a Tender Offer Statement by Means of an Electronic Data Processing System or by Other Means)

Article 27-30-11 (1) In the cases specified by Cabinet Office Ordinance, in lieu of sending the copies of the documents that a Tender Offeror (meaning a Tender Offeror as prescribed in Article 27-3, paragraph (2); hereinafter the same applies in this paragraph and paragraph (3)) is required to send to the Issuer (and to any person that has already submitted a Tender Offer Statement for the Share Certificates, etc. of that Issuer as of the day on which the Tender Offeror submits the Tender Offer Statement in connection with the relevant Tender Offer (meaning a Tender Offer Statement as prescribed in Article 27-3, paragraph (2) and including any amended statement in connection with it; hereinafter the same applies in this paragraph and paragraph (3))) of the Share Certificates, etc. that are subject to the Tender Offer (meaning a Tender Offer as prescribed in Article 27-3, paragraph (1); hereinafter the same applies in this paragraph and paragraph (3)), pursuant to the provisions of Article 27-3, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27-8, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27-13, paragraph (3)); Article 27-11, paragraph (4); and Article 27-13, paragraph (3)) or Article 27-10, paragraph (13) (including as applied mutatis mutandis pursuant to Article 27-10, paragraph (14)), the Tender Offeror may provide the Issuer with the particulars, as per the copies of those documents, that are required to be stated in the Tender Offer Notification, Written Tender Offer Withdrawal Notice (meaning a Written Tender Offer Withdrawal Notice as prescribed in Article 27-11, paragraph (3)), Tender Offer Report (meaning a Tender Offer Report as prescribed in Article 27-13, paragraph (2) and including any amended report in connection with it), and Tender Offeror's Answer, by means of an electronic data processing system or by any other means specified by Cabinet Office Ordinance. In such a case, the Tender Offeror is deemed to have sent the copies of those documents.

(2) In the cases specified by Cabinet Office Ordinance, in lieu of sending the copies of the documents that a Tender Offeror (meaning a Tender Offeror as prescribed in Article 27-3, paragraph (2) as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2); hereinafter the same applies in this

paragraph) is required to send pursuant to the provisions of Article 27-3, paragraph (4) as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2) or (3) if a person has already submitted a Tender Offer Statement (meaning a Tender Offer Statement as prescribed in Article 27-3, paragraph (2)) for Share Certificates, etc. issued by the company that is the Tender Offeror, as of the date on which the Tender Offeror submits the Tender Offer Statement (meaning a Tender Offer Statement as prescribed in Article 27-3, paragraph (2) as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2), and including any amended statement in connection with it) in the relevant Tender Offer (meaning a Tender Offer as prescribed in Article 27-3, paragraph (1) as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2); hereinafter the same applies in this paragraph), the Tender Offeror may provide the relevant person with the particulars for that Tender Offer that are required to be stated in the Tender Offer Statement (meaning the Tender Offer Statement prescribed in Article 27-3, paragraph (2) as applied mutatis mutandis to Article 27-22-2, paragraph (2), and including any amended statement in connection with it) by means of an electronic data processing system or by any other means specified by Cabinet Office Ordinance. In such a case, the Tender Offeror is deemed to have sent the copies of those documents.

- (3) In the cases specified by Cabinet Office Ordinance, in lieu of sending the copies of the documents that the Target Company of a Tender Offer is required to send to the Tender Offeror that is involved in the relevant Tender Offer pursuant to the provisions of Article 27-10, paragraph (9) (including as applied mutatis mutandis pursuant to Article 27-10, paragraph (10)) (and to any person other than the Tender Offeror that has already submitted a Tender Offer Statement for the Share Certificates, etc. of the Issuer that are subject to said Tender Offer as of the day on which the Target Company submits the Target Company's Position Statement in connection with the relevant Tender Offer (including any amended reports in connection with it; hereinafter the same applies in this paragraph)), the Target Company may provide the Tender Offeror with the particulars that are required to be stated in the Target Company's Position Statement by means of an electronic data processing system or by any other means specified by Cabinet Office Ordinance. In such a case, the Target Company of the Tender Offer is deemed to have sent the copies of those documents.
- (4) , In the cases specified by Cabinet Office Ordinance, in lieu of sending the copies of the documents that the holder of Share Certificates, etc. is required to send to the company that is the Issuer of those Share Certificates, etc. pursuant to the provisions of Article 27-27 (including as applied mutatis mutandis pursuant to Article 27-29, paragraph (2)), the holder of the Share

Certificates, etc. may provide the company with the particulars, as per the copies of those documents, that are required to be stated in the documents prescribed in Article 27-27 (including as applied mutatis mutandis pursuant to Article 27-29, paragraph (2)) (excluding parts that are not to be made available for public inspection pursuant to the provisions of Article 27-28, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27-29, paragraph (2))) by means of an electronic data processing system or by any other means specified by Cabinet Office Ordinance. In such a case, the holder of Share Certificates, etc. is deemed to have delivered the copies of those documents.

**Chapter II-5 Provision or Disclosure of Specified Information on Securities, etc.**

(Provision or Disclosure of Specified Information on Securities)

- Article 27-31 (1) An Issuer may not issue an Exclusive Solicitation of Offers to Acquire Targeting Professional Investors or any other category of solicitation with a view to issuing new securities specified by Cabinet Order which is not subject to the application of the main clause of Article 4, paragraph (1) (hereinafter referred to as "Exclusive Solicitation of Offers to Acquire" in this Article and Chapter VI-2) or an exclusive Offer to Sell, etc. to Professional Investors (unless the Securities subject to the relevant exclusive Offer to Sell, etc. to Professional Investors fall under the category of Securities for Professional Investors, and the exclusive Offer to Sell, etc. to Professional Investors falls under the category of a case specified by Cabinet Order as one in which a small number of persons are the other parties) or any other category of solicitation with a view to delivering existing securities specified by Cabinet Order that is not subject to the application of the main clause of Article 4, paragraph (1), the main clause of Article 4, paragraph (2), or the main clause of Article 4, paragraph (3) (hereinafter referred to as a "Specified Offer to Sell, etc." in this Article and Chapter VI-2) unless the Issuer of the Securities that are subject to the Exclusive Solicitation of Offers to Acquire or the Specified Offer to Sell, etc. (hereinafter collectively referred to as "Specified Solicitation, etc.") has provided to the solicited person, or has disclosed, information specified by Cabinet Office Ordinance as the basic information about the Securities and the Issuer that must be disclosed to investors (hereinafter referred to as "Specified Information on Securities"), prior to the Specified Solicitation, etc. and pursuant to the provisions of the following paragraph.
- (2) An Issuer seeking to provide or disclose Specified Information on Securities must provide the Specified Information on Securities itself or entrust another party to do so, or must disclose such information using the Internet or through other means, pursuant to the provisions of Cabinet Office Ordinance.

- (3) When an Issuer that has been disclosing Information on the Issuer (meaning Information on the Issuer as prescribed in paragraph (1) of the following Article; hereinafter the same applies in this paragraph) continuously for the period specified by Cabinet Office Ordinance pursuant to the provisions of paragraph (1) of the following Article seeks to provide or disclose Specified Information on Securities pursuant to the provisions of the preceding paragraph, and the Issuer has indicated in said Specified Information on Securities, pursuant to the provisions of Cabinet Office Ordinance, that reference should be made to the latest Information on the Issuer and to the Amended Information on the Issuer set forth in paragraph (3) of that Article with respect that that Issuer (hereinafter referred to as "Reference Information"), the Issuer is deemed to have provided or disclosed the information specified by Cabinet Office Ordinance as information about the Issuer that is part of the Specified Information on Securities.
- (4) If, between the day on which an Issuer that provides or discloses Specified Information on Securities pursuant to the provisions of paragraph (2), provides or discloses that information and the day on which one year has elapsed since that day (or, in the cases specified by Cabinet Office Ordinance as those in which it is found not to damage the public interest or result in insufficient investor protection, within the period specified by Cabinet Office Ordinance), there is a particular requiring amendment in the Specified Information on Securities, the Issuer must provide or disclose information indicating that it is amending that particular (hereinafter referred to as "Amended Specified Information on Securities"), pursuant to the provisions of Cabinet Office Ordinance.
- (5) An Issuer that has disclosed Specified Information on Securities pursuant to the provisions of paragraph (2) must continue to disclose such Specified Information on Securities (if any Amended Specified Information on Securities has been disclosed, such Amended Specified Information on Securities is included), until one year has elapsed since the date that it disclosed the Specified Information on Securities (or, in the cases specified by Cabinet Office Ordinance as those in which it is found not to damage the public interest or result in insufficient investor protection, for the period specified by Cabinet Office Ordinance).

(Provision or Disclosure of Information on the Issuer)

Article 27-32 (1) The Issuer set forth in each of the following items, pursuant to the provisions of Cabinet Office Ordinance, must provide the holders of the Securities set forth in the relevant item with the information about that Issuer that is specified by Cabinet Office Ordinance (hereinafter referred to as "Information on the Issuer") or disclose the same, at least once each business

year (if the Issuer is not a company or in any other cases specified by Cabinet Office Ordinance, the period specified by Cabinet Office Ordinance; the same applies in paragraph (4), Article 172-11, paragraph (1) and Article 185-7, paragraph (29), item (v)); provided, however, that this does not apply in the cases that are specified by Cabinet Office Ordinance as those in which, in consideration of liquidity and other circumstances, not doing so is found not to damage the public interest or result in insufficient investor protection:

- (i) an Issuer of Securities for Professional Investors: Securities for Professional Investors issued by the Issuer; or
  - (ii) an Issuer that has provided or disclosed Specified Information on Securities pursuant to the provisions of paragraph (2) of the preceding Article (excluding the Issuer specified in the preceding item): the Securities to which the provided or disclosed Specified Information on Securities pertains.
- (2) If Securities that did not fall under the category of Securities for Professional Investors have come to fall under this category (except in a case specified by Cabinet Office Ordinance), the Issuer of such Securities must provide the holder of such Securities with the Information on the Issuer or disclose the same, without delay, pursuant to the provisions of Cabinet Office Ordinance.
- (3) If there is a particular that is required to be amended in the Information on the Issuer, an Issuer set forth in one of the items of paragraph (1) must provide or disclose information indicating that it is amending that particular (hereinafter referred to as the "Amended Information on the Issuer"), pursuant to the provisions of Cabinet Office Ordinance.
- (4) An Issuer that has disclosed the Information on the Issuer pursuant to the provisions of paragraph (1) or (2) must continue to disclose such Information on the Issuer (if any Amended Information on the Issuer has been disclosed, such Amended Information on the Issuer is included), from the date on which it discloses that Information on the Issuer until the date on which it provides or discloses the Information on the Issuer for the business year following that in which it discloses the relevant Information on the Issuer (if Securities for Professional Investors to which the Information on the Issuer pertains come to no longer fall under the category of Securities for Professional Investors or in any other case specified by Cabinet Office Ordinance, for the period specified by Cabinet Office Ordinance).

(Provision or Disclosure of Foreign Securities Information)

Article 27-32-2 (1) If a Financial Services Provider, etc. sells Securities through a Secondary Distribution of Securities falling under Article 4, paragraph (1), item (iv) (hereinafter referred to as a "Secondary Distribution of Foreign Securities"), the Financial Services Provider, etc., in advance of selling of, or at the same time as it sells such Securities, must provide the other party with the

information specified by Cabinet Office Ordinance as information about the Securities and about the Issuer of the Securities (hereinafter collectively referred to as the "Foreign Securities Information"), or must disclose such information; provided, however, that this does not apply if the Issuer of the Securities has already disclosed Specified Information on Securities, etc. for the relevant Securities, nor does it apply in any other case specified by Cabinet Office Ordinance.

- (2) If a Financial Services Provider, etc. making a Secondary Distribution of Foreign Securities is so requested by a person that acquires the Securities through the Secondary Distribution of Foreign Securities and entrusts those Securities to the custody of the Financial Services Provider, etc.; if it is so requested by a person specified by Cabinet Office Ordinance as being equivalent thereto; or in a case specified by Cabinet Office Ordinance as one in which a fact has occurred that may have a material influence on the investors' investment decisions, the Financial Services Provider, etc. must provide the Foreign Securities Information to that person or must disclose such information; provided, however that this does not apply in the cases that are specified by Cabinet Office Ordinance as those in which, in light of the availability of information on the relevant Securities, the status of holding of the Securities, and other considerations, not doing so is found not to damage the public interest or result in insufficient investor protection.
- (3) A Financial Services Provider, etc. seeking to provide or disclose Foreign Securities Information pursuant to the preceding two paragraphs must provide the Foreign Securities Information personally or entrust another party to do so, or must disclose the same using the Internet or through any other means, pursuant to the provisions of Cabinet Office Ordinance.

(Compensatory Liability in Connection with False Specified Information on Securities, etc.)

Article 27-33 The provisions of Article 18, paragraph (1); Article 19; Article 20; and Article 21 (excluding item (iii) of paragraph (1); items (ii) and (iii) of paragraph (2); and also excluding paragraph (3)) apply mutatis mutandis to the Specified Information on Securities, etc. (meaning the Specified Information on Securities, the Reference Information in connection with Specified Information on Securities to which Article 27-31, paragraph (3) is applicable, or the Amended Specified Information on Securities (including Reference Information in connection with the Amended Specified Information on Securities; the same applies hereinafter)). In this case, in Article 18, paragraph (1), the term "a Registration Statement" is deemed to be replaced with "any Specified Information on Securities, etc. (meaning the Specified Information on Securities, etc. prescribed in Article 27-33; the same applies

hereinafter)", the phrase "false statement" is deemed to be replaced with "false information", the phrase "that is required to be stated" is deemed to be replaced with "that is required to be provided or disclosed", the phrase "omits a statement of material fact" is deemed to be replaced with "omits to give information concerning a material fact", the phrase "the person that submitted the Registration Statement" is deemed to be replaced with "the Issuer that provided or disclosed the Specified Information on Securities, etc.", the phrase "person that acquires the Securities through the Public Offering or Secondary Distribution" is deemed to be replaced with "person that acquires the Securities through a Specified Solicitation, etc. (meaning a Specified Solicitation, etc. prescribed in Article 27-31, paragraph (1); the same applies hereinafter) to which the Specified Information on Securities, etc. pertains (if the Specified Information on Securities, etc. has not been disclosed, this is limited to a person that has been provided with the Specified Information on Securities, etc.; hereinafter the same applies in this paragraph and Article 21 as applied mutatis mutandis through the replacement of certain terms pursuant to Article 27-33), and the phrase "statement was false" is deemed to be replaced with the "information was false"; in Article 19, paragraph (2), the phrase "the Registration Statement or the Prospectus" is deemed to be replaced with the "Specified Information on Securities, etc.", the phrase "false statement" is deemed to be replaced with "false information", the phrase "that is required to be stated" is deemed to be replaced with "that is required to be provided or disclosed", and the phrase "omits a statement of material fact" is deemed to be replaced with "omits to give information concerning a material fact"; in Article 20, the phrase "Article 18" is deemed to be replaced with "Article 18 as applied mutatis mutandis through the replacement of certain terms pursuant to Article 27-33", the phrase "the Registration Statement or the Prospectus" is deemed to be replaced with "the Specified Information on Securities, etc.", the phrase "false statement" is deemed to be replaced with "false information", the phrase "that is required to be stated" is deemed to be replaced with "that is required to be provided or disclosed", the phrase "omits a statement of material fact" is deemed to be replaced with "omits to give information concerning a material fact", and the phrase "within seven years (excluding, if an order for suspension under Article 10, paragraph (1) or Article 11, paragraph (1) has been issued, the period from the day on which the order for suspension is issued to the day on which the order is canceled) of the time that the notification under Article 4, paragraphs (1) to (3) inclusive for the relevant Public Offering or Secondary Distribution of the Securities comes into effect or the Prospectus is delivered" is deemed to be replaced with "within seven years of the time that the Specified Information on Securities, etc. is provided or disclosed"; in the non-itemized part of Article 21, paragraph (1),

the term "Registration Statement" is deemed to be replaced with "Specified Information on Securities, etc.", the phrase "false statement" is deemed to be replaced with "false information", the phrase "that is required to be stated" is deemed to be replaced with "that is required to be provided or disclosed", the phrase "omits a statement of material fact" is deemed to be replaced with "omits to give information concerning a material fact", the phrase "Public Offering or Secondary Distribution" is deemed to be replaced with "Specified Solicitation, etc.", and the phrase "statement was false" is deemed to be replaced with "information was false"; in Article 21, paragraph (1), item (i), the phrase "company that submitted the Registration Statement" is deemed to be replaced with "Issuer that has provided or disclosed the Specified Information on Securities, etc.", the phrase "at the time of submission of the Registration Statement" is deemed to be replaced with "at the time that the Specified Information on Securities, etc. was provided or disclosed", the phrase "incorporator of the company" is deemed to be replaced with "incorporator of the Issuer or any other person that can be regarded as equivalent thereto", and the phrase "the Registration Statement was submitted before the incorporation of the company" is deemed to be replaced with "the Specified Information on Securities, etc. was provided or disclosed before the establishment or inauguration of the Issuer"; in Article 21, paragraph (1), item (ii), the phrase "for which the Secondary Distribution was made" is deemed to be replaced with "for which the Specified Solicitation, etc. (limited to Specified Solicitation, etc. falling under the category of a Specified Offer to Sell, etc. (meaning a Specified Offer to Sell, etc. as prescribed in Article 27-31, paragraph (1); hereinafter the same applies in this item) was made" and the phrase "through a Secondary Distribution" is deemed to be replaced with "through a Specified Offer to Sell, etc."; in Article 21, paragraph (1), item (iv), the phrase "the Public Offering" is deemed to be replaced with "the Specified Solicitation, etc. (limited to Specified Solicitation, etc. falling under the category of an Exclusive Solicitation of Offers to Acquire (meaning an Exclusive Solicitation of Offers to Acquire as prescribed in Article 27-31, paragraph (1)); in Article 21, paragraph (2), item (i), the phrase "or (ii)" is deemed to be replaced with ", (ii), or (iv)"; in Article 21, paragraph (2), item (i), the phrase "statement was false" is deemed to be replaced with "information was false"; in Article 21, paragraph (4), the phrase "Public Offering or Secondary Distribution of Securities" is deemed to be replaced with "Specified Solicitation, etc."; in item (i) of that paragraph, the term "Securities" is deemed to be replaced with "Securities for which the Specified Solicitation, etc. was made"; in Article 21, paragraph (4), item (ii), the term "Securities" is deemed to be replaced with "Securities for which the Specified Solicitation, etc. was made"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(Compensatory Liability in Connection with False Specified Information)

Article 27-34 The provisions of Articles 21-2 to 22 inclusive apply mutatis mutandis to Specified Information (meaning Specified Information on Securities, etc. or Information on the Issuer, etc. (meaning Information on the Issuer or Amended Information on the Issuer; the same applies hereinafter); the same applies in Article 27-35). In this case, in Article 21-2, paragraph (1), the phrase "a document set forth in one of the items of Article 25, paragraph (1) (excluding items (v) and (ix)) (hereinafter referred to as a 'Document' in this Article)" is deemed to be replaced with "the Specified Information (meaning the Specified Information prescribed in Article 27-34; the same applies hereinafter) disclosed pursuant to the provisions of Article 27-31, paragraph (2), (4), or (5) or Article 27-32 (hereinafter referred to as 'Disclosed Information')", the phrase "false statement" is deemed to be replaced with "false information", the phrase "that is required to be stated" is deemed to be replaced with "that is required to be provided or disclosed", the phrase "omits a statement of material fact" is deemed to be replaced with "omits to give information concerning a material fact", the phrase "the person submitting the Document" is deemed to be replaced with "the Issuer disclosing the Disclosed Information", the phrase "a person that, during the period that the Document is being made available for public inspection as required by Article 25, paragraph (1), acquires Securities issued by the person submitting that Document (excluding a document set forth in Article 25, paragraph (1), item (xii)) or by a person whose Parent Company, etc. (meaning a Parent Company, etc. as defined by Article 24-7, paragraph (1)) is the person submitting the document (limited to a document set forth in Article 25, paragraph (1), item (xii))" is deemed to be replaced with "a person that, during the period that the Document is being disclosed pursuant to any of these provisions, acquires Securities issued by said Issuer", the phrase "or Secondary Distribution" is deemed to be replaced with ", Secondary Distribution, or Specified Solicitation, etc. (meaning the Specified Solicitation, etc. prescribed in Article 27-31, paragraph (1); the same applies hereinafter)", the phrase "statement being false" is deemed to be replaced with "information being false", and the phrase "False Statement, etc." is deemed to be replaced with "False Information, etc."; in Article 21-2, paragraph (2), the phrase "False Statement, etc. in the relevant Document" is deemed to be replaced with "False Information, etc. that pertains to the relevant Disclosed Information" and the phrase "the day of the Disclosure of the False Statement, etc." is deemed to be replaced with "the day of the Disclosure of the False Information, etc."; in Article 21-2, paragraph (3), the phrase "Disclosure of a False Statement, etc." is deemed to be replaced with "Disclosure of False Information, etc.", the phrase "means that the person submitting the

document" is deemed to be replaced with "means that the Issuer disclosing the Disclosed Information", the phrase "over the person submitting the Document" is deemed to be replaced with "over the Issuer", the phrase "that the Document's False Statement, etc. concerns" is deemed to be replaced with "that the False Statement, etc. in the Disclosed Information concerns", the phrase "that is required to be stated" is deemed to be replaced with "that is required to be provided or disclosed", and the phrase "through public inspection provided for in Article 25, paragraph (1) or through other means" is deemed to be replaced with "pursuant to the provisions of Cabinet Office Ordinance"; in Article 21-2, paragraphs (4) and (5), the phrase "the Document's False Statement, etc." is deemed to be replaced with "the False Information, etc. in the Disclosed Information"; in Article 21-3, the phrase "Article 21-2" is deemed to be replaced with "Article 21-2 as applied mutatis mutandis through the replacement of certain terms pursuant to Article 27-34", the phrase "a document set forth in one of the items of Article 25, paragraph (1) (excluding Article 25, paragraph (1), items (v) and (ix))" is deemed to be replaced with "the Disclosed Information (meaning the Disclosed Information prescribed in Article 21-2, paragraph (1) as applied mutatis mutandis through the replacement of certain terms pursuant to Article 27-34; the same applies hereinafter)", the phrase "the phrase 'three years' is deemed to be replaced with 'two years' " is deemed to be replaced with "the phrase 'false statement' is deemed to be replaced with 'false information', the phrase 'that is required to be stated' is deemed to be replaced with 'that is required to be provided or disclosed', the phrase 'omits a statement as to a material particular' is deemed to be replaced with 'omits to give information concerning a material fact', the phrase 'three years' is deemed to be replaced with 'two years' ", and the phrase "within five years of the time that the document is submitted" is deemed to be replaced with "within five years of the day on which the Disclosed Information is disclosed"; in Article 22, paragraph (1), the phrase "If a Registration Statement contains" is deemed to be replaced with "If Specified Information contains", the phrase "a false statement" is deemed to be replaced with "false information", the phrase "that is required to be stated" is deemed to be replaced with "that is required to be provided or disclosed", the phrase "omits a statement as to a material particular" is deemed to be replaced with "omits to give information concerning a material fact", the phrase "persons set forth in Article 21, paragraph (1), items (i) and (iii)" is deemed to be replaced with "a person that, at the time of the provision or disclosure of the Specified Information, is an officer (meaning an officer as prescribed in Article 21, paragraph (1), item (i)) of the Issuer that provided or disclosed said Specified Information, or an incorporator or founder of the Issuer or any other person equivalent thereto (but only if the Specified Information, etc. is provided or disclosed before the

incorporation or inauguration of the Issuer)", the phrase "statement is false" is deemed to be replaced with the "information is false", the phrase "issued by the person submitting the Registration Statement" is deemed to be replaced with "of the Issuer that provided or disclosed the Specified Information", and the phrase "other than through a Public Offering or Secondary Distribution" is deemed to be replaced with "(if the Specified Information has not been disclosed, this is limited to the persons that have been provided with the Specified Information; and, if the Specified Information falls under the category of Specified Information on Securities, etc. (meaning the Specified Information on Securities, etc. prescribed in Article 27-33), this is limited to a person that has acquired such Securities other than through a Public Offering, Secondary Distribution, or Specified Solicitation, etc.)"; in Article 22, paragraph (2), the phrase "Article 21, paragraph (2), items (i) and (ii)" is deemed to be replaced with "Article 21, paragraph (2), item (i)"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(Compensatory Liability of a Violator in Connection with Foreign Securities Information)

- Article 27-34-2 (1) A Financial Services Provider, etc. that violates the provisions of Article 27-32-2, paragraph (1) in selling Securities is liable to compensate a person that purchases those Securities, for damage arising from the violation.
- (2) A Financial Services Provider, etc. that sells Securities through a Secondary Distribution of Foreign Securities, using Foreign Securities Information that contains false information about a material particular, omits information about a material particular that is required to be provided or disclosed, or omits to give information concerning a material fact that is necessary to prevent it from being misleading, is liable to compensate for damage sustained by a person that purchases said Securities without knowing that the information is false or has been omitted; provided, however, that this does not apply if the Financial Services Provider, etc. that would be liable for such compensation proves that it did not know, and in the exercise of reasonable care could not have known, that the information was false or had been omitted.
- (3) If Foreign Securities Information that is disclosed pursuant to the provisions of Article 27-32-2, paragraph (3) (hereinafter referred to as "Disclosed Information" in this paragraph) contains false information about a material particular, omits information about a material particular that is required to be provided or disclosed, or omits to give information concerning a material fact that is necessary to prevent it from being misleading, the Financial Services Provider, etc. that discloses the Disclosed Information is liable to compensate a person that, without knowing that the information is false or has been omitted,

acquires Securities to which the Disclosed Information pertains from the Financial Services Provider other than through a Public Offering or Secondary Distribution or Exclusive Solicitation of Offers to Acquire, etc., during the period in which the Disclosed Information is being disclosed pursuant to paragraph (3) of that Article, for damage arising from the information being false or having been omitted; provided, however, that this does not apply if the Financial Services Provider, etc. that would be liable for such damages proves that it did not know, and in the exercise of reasonable care could not have known, that the information was false or had been omitted.

(Collection of Reports and Inspection of a Provider of Specified Information)

Article 27-35 Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order an Issuer that has provided or disclosed Specified Information, an Issuer that is found to be required to provide or disclose Specified Information, the Underwriter of Securities to which Specified Information pertains, or any other concerned party or witness to submit reports or materials that should serve as a reference, and may have the relevant officials inspect that person's books and documents or any other articles of theirs.

### **Chapter III Financial Services Providers, etc.**

#### **Section 1 General Provisions**

##### **Subsection 1 General Rules**

Article 28 (1) The term "Type I Financial Instruments Business" as used in this Chapter means the performance of one of the following acts in the course of trade, within the Financial Instruments Business:

- (i) an act set forth in Article 2, paragraph (8), items (i) to (iii) inclusive, item (v), item (viii), or item (ix) with regard to Securities (excluding rights set forth in the items of Article 2, paragraph (2) that are deemed to be Securities pursuant to the provisions of that paragraph);
- (ii) an act set forth in Article 2, paragraph (8), item (iv), or an act set forth in item (v) of that paragraph in relation to Over-the-Counter Derivatives Transactions;
- (iii) an act falling under one of the following sub-items (a) to (c) inclusive:
  - (a) the Wholesale Underwriting of Securities that is specified by Cabinet Order as involving a high necessity to manage the risk of loss;
  - (b) the Wholesale Underwriting of Securities other than that which is set forth in sub-item (a); or
  - (c) an act set forth in Article 2, paragraph (8), item (vi) other than the

Wholesale Underwriting of Securities.

- (iv) an act set forth in Article 2, paragraph (8), item (x); or
  - (v) an act set forth in Article 2, paragraph (8), item (xvi) or (xvii).
- (2) The term "Type II Financial Instruments Business" as used in this Chapter means the performance of one of the following acts in the course of trade, within the Financial Instruments Business:
- (i) an act set forth in Article 2, paragraph (8), item (vii);
  - (ii) an act set forth in Article 2, paragraph (8), items (i) to (iii) inclusive, item (v), item (viii), or item (ix) with regard to rights set forth in the items of Article 2, paragraph (2) that are deemed to be Securities pursuant to the provisions of that paragraph;
  - (iii) an act set forth in Article 2, paragraph (8), items (i) to (iii) inclusive or item (v) (other than one that is set forth in item (i) or (ii) of the preceding paragraph or the preceding item); or
  - (iv) an act set forth in Article 2, paragraph (8), item (xviii).
- (3) The term "Investment Advisory and Agency Services" as used in this Chapter means the performance of one of the following acts in the course of trade, within the Financial Transaction Business:
- (i) an act set forth in Article 2, paragraph (8), item (xi); or
  - (ii) an act set forth in Article 2, paragraph (8), item (xiii).
- (4) The term "Investment Management" as used in this Chapter means the performance of one of the following acts in the course of trade, within the Financial Instruments Business, and includes the performance of such an act by a bank, by a Cooperative Financial Institution, or by any other financial institution specified by Cabinet Order, in the course of trade:
- (i) an act set forth in Article 2, paragraph (8), item (xii);
  - (ii) an act set forth in Article 2, paragraph (8), item (xiv); or
  - (iii) an act set forth in Article 2, paragraph (8), item (xv).
- (5) The term "Securities, etc. Management" as used in this Chapter means services within the Type I Financial Instruments Business which are connected with the act set forth in paragraph (1), item (v).
- (6) The term "Investment Advisory Services" as used in this Chapter means services within Investment Advisory and Agency Services which are connected with the act set forth in paragraph (3), item (i).
- (7) The term "Wholesale Underwriting of Securities" as used in this Chapter means the underwriting of Securities prescribed in Article 2, paragraph (8), item (vi) which falls under a category set forth in one of the following items:
- (i) the acquisition of all or part of the relevant Securities from the Issuer or holder (excluding Financial Services Providers and registered financial institutions; the same applies in the following item) with the aim of having other persons acquire said Securities; or

- (ii) the conclusion of a contract stipulating that if no other person acquires all or part of the relevant Securities, the Underwriter will acquire those that remain from the Issuer or holder.
- (8) The term "Securities Services" as used in this Chapter means the performance of one of the following acts in the course of trade:
- (i) the purchase and sale of Securities, or intermediation, brokerage (excluding Brokerage for the Clearing of Securities, etc.), or agency for the same;
  - (ii) intermediation, brokerage, or agency for entrustment of the purchase and sale of Securities on a Financial Instruments Exchange Market or foreign Financial Instruments Market;
  - (iii) the following transactions, among Market Transactions of Derivatives:
    - (a) a transaction comprising a purchase and sale in which the parties to the purchase and sale promise to deliver and take delivery of a Security (including a standardized instrument as set forth in Article 2, paragraph (24), item (v) which is connected with a Security, other than one that is specified by Cabinet Order; hereinafter the same applies in this item) and its value at a fixed time in the future, and which the parties may settle by delivering and taking delivery of the difference in values if they sell or buy back the underlying Security;
    - (b) a transaction comprising the parties' promises to pay and receive an amount of money calculated based on the difference between the numerical value of a Securities indicator upon which the parties agree in advance (hereinafter referred to as the "Agreed Figure for the Securities" in this Chapter) and the actual numerical value of the Securities indicator at a fixed time in the future (hereinafter referred to as the "Actual Figure for the Securities" in this Chapter);
    - (c) a transaction comprising the first party's promise to grant the second party the option of effecting one of the following transactions between them by a unilateral manifestation of the second party's intention alone, and the second party's promise to pay the value of that option:
      - 1. a purchase and sale of Securities; and
      - 2. a transaction set forth in one of sub-items (a), (b), (d), or (e) (including a transaction equivalent to the transaction set forth in sub-item (b) that is prescribed by the Financial Instruments Exchange).
    - (d) a transaction comprising the parties' mutual promise that, for the amount of money they have set as the principal, the first party will pay money to the second based on the interest rate, etc. of agreed-upon Securities or based on the rate of change in an agreed-upon Securities indicator (excluding the interest rate, etc. of Securities and numerical values calculated based on them; the same applies in this sub-item (d) and sub-item (e) of the following item) during the period they have agreed to, and

- the second party will pay money to the first based on an agreed-upon money rate or the interest rate, etc. of agreed-upon Securities, or based on the value of an agreed-upon currency or the rate of change in an agreed-upon Securities indicator during the period they have agreed to (including transactions in which the parties promise that, in addition to paying such amounts, they will also deliver and take delivery of money or Securities equivalent to the amount they have set as the principal); and
- (e) a transaction specified by Cabinet Order which is similar to one of the transactions set forth in sub-items (a) to (d) inclusive.
- (iv) the following transactions, among Over-the-Counter Derivatives Transactions:
- (a) a transaction comprising a purchase and sale in which the parties to the purchase and sale promise to deliver and take delivery of a Security (other than one specified by Cabinet Order; hereinafter the same applies in this item) and its value at a fixed time in the future, and which the parties may settle by delivering and taking delivery of the difference in values if they sell back or buy back the underlying Security or if they take some other action that is specified by Cabinet Order;
  - (b) a transaction comprising the parties' promises to pay and receive an amount of money calculated based on the difference between the Agreed Figure for the Securities and the Actual Figure for the Securities, or a transaction similar thereto;
  - (c) a transaction comprising the first party's promise to grant the second party the option of effecting one of the following transactions between them by a unilateral manifestation of the second party's intention alone, and the other party's promise to pay the value of that option, or any transaction similar thereto:
    - 1. a purchase and sale of Securities; and
    - 2. a transaction set forth in sub-items (a), (b), (e), and (f).
  - (d) a transaction comprising, on one side, the first party's promise to grant the second party the option of effecting a transaction by a unilateral manifestation of the second party's intention alone, in which the parties pay and receive the amount of money calculated based on the difference between the numerical value that they have agreed in advance to use as the Agreed Figure for the relevant Securities indicator if the second party manifests the intention to effect the transaction, and the Actual Figure of the Securities indicator at the time the second party manifests that intention, and, on the other side, the second party's promise to pay the value of that option, or any transaction similar thereto;
  - (e) a transaction comprising the parties' mutual promise that, for the amount of money they have set as the principal, the first party will pay money to

the second based on the interest rate, etc. of agreed-upon Securities or based on the rate of change in an agreed-upon Securities indicator during the period they have agreed to, and the second party will pay money to the first based on an agreed-upon money rate or the interest rate, etc. of agreed-upon Securities, or based on the value of agreed-upon currencies or the rate of change in an agreed-upon Securities indicator during the period they have agreed to (including transactions comprising the parties' promise that, in addition to paying such amounts, they will also deliver and take delivery of money or Securities equivalent to the amount they have set as the principal), or any transaction similar thereto; and

- (f) a transaction, other than what is set forth in sub-items (a) to (e) inclusive, that has an economic nature similar to these, and that is specified by Cabinet Order as a transaction regarding which it is found to be necessary to ensure the public interest or the protection of investors.
- (v) a transaction conducted on a foreign Financial Instruments Market that is similar to a transaction set forth in item (iii);
- (vi) intermediation, brokerage (excluding Brokerage for the Clearing of Securities, etc.), or agency for a transaction set forth in one of the preceding three items (hereinafter referred to as a "Transaction of Securities-Related Derivatives") or intermediation, brokerage, or agency for the entrustment of a transaction set forth in item (iii) or the preceding item;
- (vii) an act set forth in Article 2, paragraph (8), item (v) that is connected with the purchase and sale of a Security, a Transaction of Securities-Related Derivatives, or any other transaction specified by Cabinet Order; or
- (viii) an act set forth in Article 2, paragraph (8), item (vi), (viii), or (ix).

## **Subsection 2 Financial Services Providers**

(Registration)

Article 29 A person may not engage in Financial Instruments Business if that person has not been registered by the Prime Minister.

(Application for Registration)

Article 29-2 (1) A person seeking the registration referred to in the preceding Article must submit a written application for registration to the Prime Minister, in which it states the following particulars. In this, a foreign corporation seeking to engage in Type I Financial Instruments Business must designate a domestic representative (limited to one that takes charge of business at all business offices or offices that said foreign corporation has in Japan so as to engage in Type I Financial Instruments Business) before submitting the written application for registration:

- (i) the person's trade name or name;
  - (ii) the amount of stated capital or the total amount of contributions, if it is a corporation (or if it is a foreign corporation seeking to engage in Type I Financial Instruments Business, the amount of stated capital or the total amount of contributions and the amount of brought-in capital (meaning assets corresponding to the stated capital that are brought into Japan; the same applies hereinafter));
  - (iii) the names of its officers, if it is a corporation (including the domestic representative, if it is a foreign corporation; hereinafter the same applies in this Chapter (excluding Article 29-4, paragraph (1), item (v), sub-item (e)3.) and Section 5) to Chapter III-3 inclusive);
  - (iv) if the person has an employee as specified by Cabinet Order, the name of that employee;
  - (v) the business category (meaning which of the acts set forth in Article 28, paragraph (1), item (i), item (ii), item (iii), sub-items (a) to (c) inclusive, or item (iv), or which, among Securities, etc. Management, Type II Financial Instruments Business, Investment Advisory and Agency Services, or Investment Management, is the business category for which the person seeks registration);
  - (vi) the name and location of the head office and other business offices or offices (or if it is a foreign corporation, the head office, and the principal business office or office in Japan, or other business offices or offices in Japan);
  - (vii) if the person engages in other business, the business type; and
  - (viii) other particulars specified by Cabinet Office Ordinance.
- (2) The following documents must accompany the written application for registration referred to in the preceding paragraph:
- (i) a document pledging that the applicant does not fall under any of the items of Article 29-4, paragraph (1) (other than item (i), sub-items (c) and (d) or item (v), sub-item (c));
  - (ii) a document stating the things specified by Cabinet Office Ordinance as constituting the business outline and business methods, and any other documents specified by Cabinet Office Ordinance; and
  - (iii) in addition to what is set forth in the preceding two items, if the person is a corporation, its articles of incorporation, its certificate of registered information, and any other document specified by Cabinet Office Ordinance.
- (3) As concerns the documents set forth in item (iii) of the preceding paragraph accompanying a written application for registration, if the articles of incorporation have been prepared as electronic or magnetic records, such electronic or magnetic records (limited to those specified by Cabinet Office Ordinance) may accompany the written application in lieu of paper documents.

(4) Calculation of brought-in capital is specified by Cabinet Order.

(Registration in the Register)

Article 29-3 (1) Whenever an application is filed for the registration referred to in Article 29, unless the Prime Minister refuses the registration pursuant to the provisions of paragraph (1) of the following Article, the Prime Minister shall register the following particulars in the Financial Services Providers' register:

- (i) the particulars set forth in the items of paragraph (1) of the preceding Article; and
- (ii) the date of registration and the registration number.

(2) The Prime Minister must make the Financial Services Providers register available for public inspection.

(Refusal of Registration)

Article 29-4 (1) The Prime Minister must refuse to effect a registration if the applicant for registration falls under one of the following items, or if the written application for registration or a document or electronic or magnetic record that is required to accompany it contains a false statement or record or omits a statement or record of a material fact:

- (i) a person falling under one of the following:
  - (a) a person that has had the registration referred to in Article 29 rescinded pursuant to the provisions of Article 52, paragraph (1); Article 53, paragraph (3); or Article 57-6, paragraph (3); had the permission referred to in Article 60, paragraph (1) rescinded pursuant to the provisions of Article 60-8, paragraph (1); had the registration referred to in Article 66 rescinded pursuant to the provisions of Article 66-20, paragraph (1); or had the registration referred to in Article 66-27 rescinded pursuant to the provisions of Article 66-42, paragraph (1); if five years have not yet passed since the date of the rescission; or a person that had obtained a registration or license of the same kind in a foreign state pursuant to the provisions of a foreign law or regulation that is equivalent to this Act (including authorization or any other administrative disposition similar to such a license or registration), but that has had that registration or license rescinded, if five years have not yet passed since the date of the rescission;
  - (b) a person that has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of this Act; the Secured Bonds Trust Act (Act No. 52 of 1905); the Act on Engagement in Trust Business by a Financial Institution (Act No. 43 of 1943); the Commodity Futures Act; the Act on Investment Trusts and Investment Corporations; the Real Estate Brokerage Act (Act No. 176 of

- 1952); the Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates (Act No. 195 of 1954); the Installment Sales Act (Act No. 159 of 1961); the Money Lending Business Act (Act No. 32 of 1983); the Act on the Deposit, etc. Transaction Agreements of Specified Commodities, etc. (Act No. 62 of 1986); the Act Regulating Business Involving Commodity Investment (Act No. 66 of 1991); the Specified Joint Real Estate Ventures Act; the Act on the Securitization of Assets; the Act on Corporate Bond Issuance for Financial Corporations' Loan Business (Act No. 32 of 1999); the Trust Business Act (Act No. 154 of 2004); or any other Act specified by Cabinet Order, or for violating the provisions of a foreign law or regulation that is equivalent to one of these Acts, if five years have not yet passed since the day on which the person finished serving the sentence or ceased to be subject to its enforcement;
- (c) a person that does other business which is found to be contrary to the public interest; or
  - (d) a person that does not have a sufficient personnel structure to perform Financial Instruments Business (excluding Investment Advisory and Agency Services) in an appropriate manner.
- (ii) a corporation that has a person falling under one of the following as its officer (including an advisor, consultant, or any other person, irrespective of title, that is found to have at least the same amount of authority over the corporation as a director, executive officer, or any equivalent person; hereinafter the same applies in this item, Article 52, paragraph (2); Article 52-2, paragraph (2); and Article 57-20, paragraph (1), item (i) and paragraph (3)) or among those of its employees as are specified by Cabinet Order:
- (a) an adult ward, a person under curatorship, or a person that is treated in the same manner under foreign laws and regulations;
  - (b) a person that has become subject to an order to commence bankruptcy proceedings and has not obtained a restoration of rights, or a person that is treated in the same manner under foreign laws and regulations;
  - (c) a person that has been sentenced to imprisonment or a heavier punishment (including an equivalent sentence under foreign laws and regulations), if five years have not yet passed since the day on which that person finished serving the sentence or ceased to be subject to its enforcement;
  - (d) a person that, during the 30 days prior to the date of rescission, was the officer of a corporation, in a case in which the corporation was a Financial Services Provider but has had the registration referred to in Article 29 rescinded pursuant to the provisions of Article 52, paragraph (1), Article 53, paragraph (3), or Article 57-6, paragraph (3); in a case in which the corporation was an Authorized Operator for On-Exchange Transactions

- prescribed in Article 60-4, paragraph (1) but has had the permission referred to in Article 60, paragraph (1) rescinded pursuant to the provisions of Article 60-8, paragraph (1); in a case in which the corporation was a Financial Instruments Intermediary but has had the registration referred to in Article 66 rescinded pursuant to the provisions of Article 66-20, paragraph (1); in a case in which the corporation was a Credit Rating Agency but has had the registration referred to in Article 66-27 rescinded pursuant to the provisions of Article 66-42, paragraph (1); or in a case in which the corporation had obtained a registration or permission of the same kind in a foreign state pursuant to the provisions of a foreign law or regulation that is equivalent to this Act (including authorization or any other administrative disposition similar to such a registration or permission), but has had that registration or permission rescinded; if five years have not yet passed since the date of the rescission;
- (e) an individual that was a Financial Services Provider but that has had the registration referred to in Article 29 rescinded pursuant to the provisions of Article 52, paragraph (1); an individual that was a Financial Instruments Intermediary but that has had the registration referred to in Article 66 rescinded pursuant to the provisions of Article 66-20, paragraph (1); or an individual that had obtained a registration of the same kind in a foreign state pursuant to the provisions of a foreign law or regulation that is equivalent to this Act (including permission or any other administrative disposition similar to such a registration) or that had obtained permission of the same kind as the permission referred to in Article 60, paragraph (1) in a foreign state pursuant to the provisions of a foreign law or regulation that is equivalent to this Act (including permission or any other administrative disposition that is similar to such permission), but that has had that registration or permission rescinded; if five years have not yet passed since the date of the rescission;
- (f) a person falling under the category of an officer whose dismissal or removal has been ordered pursuant to the provisions of Article 52, paragraph (2); Article 60-8, paragraph (2); Article 66-20, paragraph (2); or Article 66-42, paragraph (2); or an officer whose dismissal or removal has been ordered in a foreign state pursuant to the provisions of a foreign law or regulation that is equivalent to this Act, if five years have not yet passed since the day of the disposition; or
- (g) a person that has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of one of the Acts prescribed in sub-item (b) of the preceding item or the Act to Prevent Illegal Activities by Members of Organized Crime Groups (Act No. 77 of 1991) (excluding the provisions of Article 32-2, paragraph (7) of

that Act), or for violating the provisions of a foreign law or regulation that is equivalent to one of these Acts, or committing a crime specified by the Penal Code (Act No. 45 of 1907) or the Act on Punishment of Violent Acts (Act No. 60, 1926), if five years have not yet passed since the day on which the person finished serving the sentence or ceased to be subject to its enforcement.

- (iii) an individual that falls under any of sub-items (a) to (f) inclusive or (g) (excluding the part that involves the provisions of Acts prescribed in item (i), sub-item (b)) of the preceding item, or an individual that has an employee specified by Cabinet Order that falls under any of sub-items (a) to (g) inclusive of the preceding item;
- (iv) a person (other than an individual) seeking to engage in Type I Financial Instruments Business, Type II Financial Instruments Business, or Investment Management, whose stated capital or contributions in total are less than the amount of money that is specified by Cabinet Order as necessary and appropriate in the public interest or for the protection of investors;
- (v) a person falling under one of the following and seeking to engage in Type I Financial Instruments Business or Investment Management:
  - (a) a person other than a stock company (limited to one that has a board of directors, company auditors, or Committees (meaning Committees prescribed in Article 2, item (xii) of the Companies Act)) and a corporation of the same kind as a company with a board of directors incorporated in compliance with foreign laws and regulations (if a person seeks to engage in Type I Financial Instruments Business, limited to a person that engages in the same kind of business as Type I Financial Instruments Business in a foreign state in compliance with foreign laws and regulations (including a person specified by Cabinet Order as equivalent to such a person) and that has a business office or office in Japan);
  - (b) a person whose net assets (meaning the figure arrived at when the total amount of liabilities is deducted from the total amount of assets pursuant to the provisions of Cabinet Office Ordinance) are less than the amount of money that is specified by Cabinet Order as necessary and appropriate in the public interest or for the protection of investors;
  - (c) a person engaged in other business that does not fall under one of the categories of business prescribed in Article 35, paragraph (1) or business set forth in the items of Article 35, paragraph (2), and that is found to compromise investor protection due to difficulties in managing the risk of loss in connection with said business;
  - (d) a corporation (excluding a foreign corporation) that has a person falling under one of the following as an individual Major Shareholder (if the

- applicant is a Subsidiary Company of a Holding Company (meaning a holding company as prescribed in Article 9, paragraph (4), item (i) of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Act No. 54 of 1947); hereinafter the same applies in this item and Article 32-4), this includes a Major Shareholder of said Holding Company; the same applies in sub-items (e) and (f)):
1. an adult ward or a person under curatorship, or a person that is treated in the same manner under foreign laws and regulations, whose statutory representative falls under one of sub-items (a) to (g) inclusive of item (ii); or
  2. a person falling under one of sub-items (b) to (g) inclusive of item (ii).
- (e) a corporation (excluding a foreign corporation) that has a person falling under one of the following as a corporate Major Shareholder; or
1. a corporation falling under item (i), sub-item (a);
  2. a corporation that has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of one of the Acts prescribed in item (i), sub-item (b) or for violating the provisions of a foreign law or regulation that is equivalent to one of such Acts, if five years have not yet passed since the day on which the person finished serving the sentence or ceased to be subject to its enforcement; or
  3. a corporation that has a person falling under one of sub-items (a) to (g) inclusive of item (ii) among the officers that represent it.
- (f) a foreign corporation for which the foreign regulatory authority (meaning the Foreign Regulatory Authority for Financial Instruments defined in Article 189, paragraph (1) or any other regulatory authority specified by Cabinet Order that enforces foreign laws and regulations) has not confirmed that a person equivalent to a Major Shareholder is unlikely to compromise the sound and appropriate operation of Financial Instruments Business.
- (vi) a person falling under one of the following and seeking to engage in Type I Financial Instruments Business:
- (a) a person whose ratio as calculated based on the provisions of Article 46-6, paragraph (1) is less than 120 percent; or
  - (b) a person seeking to use a trade name that another Financial Services Provider (limited to those engaged in Type I Financial Instruments Business; the same applies in this sub-item (b)) is already using or a trade name that could give rise to the misconception that it is another Financial Services Provider.
- (2) The term "Major Shareholder" as used in sub-items (d) to (f) inclusive of item (v) of the preceding paragraph means a person that holds voting rights

(excluding the voting rights that are specified by Cabinet Office Ordinance in consideration of the manner in which they are held and other circumstances; hereinafter referred to as "Subject Voting Rights" in paragraph (4), Article 32, paragraphs (1) and (4)) constituting 20 percent or more (or 15 percent or more, if a fact has occurred that is specified by Cabinet Office Ordinance as something that is presumed to have a material influence on decisions about the company's financial and operational policies) of all shareholders', etc. voting rights (meaning the voting rights of all shareholders, all members, all partners, and all equity investors, and for a stock company, excluding voting rights in respect of shares that do not allow voting rights to be exercised with regard to all matters that can be resolved at a shareholders meeting, and including voting rights in respect of shares that are deemed to have voting rights pursuant to the provisions of Article 879, paragraph (3) of the Companies Act; the same applies hereinafter).

- (3) The term "Subsidiary Company" as used in paragraph (1), item (v), sub-item (d) means a second company in which a first company holds the majority of all shareholders', etc. voting rights. In such a case, a second company in which a first company and one or more of its Subsidiary Companies hold the majority of all shareholders', etc. voting rights, or in which one or more of a first company's Subsidiary Companies hold the majority of all shareholders', etc. voting rights, is deemed to be the Subsidiary Company of said first company.
- (4) With regard to the application of the provisions of paragraph (2) in a case set forth in one of the following items, the person set forth in the relevant item is deemed to hold the Subject Voting Rights prescribed in that item:
  - (i) if a person has the authority to exercise the company's Subject Voting Rights or the authority to give instructions on the exercise of said voting rights based on a money trust contract or other contract or based on the provisions of the law: said Subject Voting Rights; and
  - (ii) if a person that is related to the relevant person through a shareholding relationship, familial relationship, or other special relationship specified by Cabinet Order, holds Subject Voting Rights in a corporation: the Subject Voting Rights held by the person with the special relationship to the relevant person.
- (5) The necessary particulars relevant to the application of the provisions of paragraph (2) and the preceding paragraph are specified by Cabinet Order.

(Authorization)

- Article 30 (1) A Financial Services Provider must obtain the authorization of the Prime Minister if it seeks to perform the acts set forth in Article 2, paragraph (8), item (x) in the course of trade.
- (2) Upon granting the authorization referred to in the preceding paragraph to a

Financial Services Provider, the Prime Minister shall note this in said Financial Services Provider's registration.

(Conditions on Authorization)

- Article 30-2 (1) The Prime Minister may attach conditions to the authorization referred to in paragraph (1) of the preceding Article.
- (2) The conditions referred to in the preceding paragraph must constitute the minimum level of conditions that are necessary in the public interest and for the protection of investors.

(Application for Authorization)

- Article 30-3 (1) A Financial Services Provider seeking the authorization referred to in Article 30, paragraph (1) must submit a written application for authorization to the Prime Minister, in which it states the following particulars:
- (i) its trade name; and
  - (ii) the date of registration and its registration number.
- (2) A document stating how the person manages the risk of loss, how duties are divided, and the other things specified by Cabinet Office Ordinance as constituting the business outline and business methods, and other documents specified by Cabinet Office Ordinance must accompany the written application for authorization referred to in the preceding paragraph.

(Criteria for Authorization)

- Article 30-4 Before seeking to grant the authorization referred to in Article 30, paragraph (1), the Prime Minister shall examine whether there is compliance with the following criteria:
- (i) an appropriate system and regulations are in place for managing the risk of loss;
  - (ii) the amount of stated capital exceeds the amount of money that is specified by Cabinet Order as necessary and appropriate in the public interest or for the protection of investors;
  - (iii) the amount of net assets exceeds the amount of money prescribed in the preceding item;
  - (iv) the provisions of Article 46-6, paragraph (2) are not being violated; and
  - (v) the applicant's price formation method, its methods of transfer and other settlement, and its Cabinet-Office-Ordinance-specified business outline and business methods are necessary and appropriate in the public interest or for the protection of investors.

(Registration of a Change)

- Article 31 (1) If a particular set forth in the items of Article 29-2, paragraph (1) (excluding item (v)) changes, the Financial Services Provider must notify the Prime Minister of this within two weeks from the day of the change.
- (2) Upon accepting a notification under the preceding paragraph, the Prime Minister shall register the particulars given in the notification in the Financial Services Provider register.
- (3) If the business outline or business methods that a Financial Services Provider has stated in the documents set forth in Article 29-2, paragraph (2), item (ii) change, the Financial Services Provider must notify the Prime Minister of this without delay pursuant to the provisions of Cabinet Office Ordinance.
- (4) If a Financial Services Provider seeks to change the particular set forth in Article 29-2, paragraph (1), item (v), it must have that change registered by the Prime Minister pursuant to the provisions of Cabinet Office Ordinance.
- (5) The provisions of Article 29-3 and Article 29-4 apply mutatis mutandis to the registration of a change referred to in the preceding paragraph. In this case, in Article 29-3, paragraph (1), the phrase "the following particulars" is deemed to be replaced with "the particulars subject to the change"; in Article 29-4, paragraph (1), the phrase "the following items" is deemed to be replaced with "the following items (excluding item (i), sub-items (a) to (c) inclusive, item (ii), and item (iii))"; and any other necessary technical replacement of terms is specified by Cabinet Order.
- (6) Notwithstanding the provisions of paragraph (3), if a Financial Services Provider that has obtained the authorization referred to in Article 30, paragraph (1) seeks to change the way it manages the risk of loss, its price formation method, its methods of transfer and other settlement, or the Cabinet-Office-Ordinance-specified business outline and business methods for which it has obtained that authorization, it must obtain the authorization of the Prime Minister.

(Security Deposits for Operations)

- Article 31-2 (1) A Financial Services Provider (limited to individuals seeking to engage in Type II Financial Instruments Business and persons seeking to engage in Investment Advisory and Agency Services only; hereinafter the same applies in this Article) must deposit a business security deposit with the deposit office nearest to its principal business office or office.
- (2) The amount of the business security deposit referred to in the preceding paragraph is specified by Cabinet Order in consideration of the actual condition of a Financial Services Provider's business and the need to protect investors.
- (3) If a Financial Services Provider concludes a contract stating that the required business security deposit of the Financial Services Provider will be deposited if

ordered by the Prime Minister, and has notified the Prime Minister of this, pursuant to the provisions of Cabinet Order, so long as that contract remains valid, the Financial Services Provider may refrain from depositing all or part of the business security deposit referred to in paragraph (1), in line with the amount of money that will be deposited pursuant to the contract (hereinafter referred to as the "Contract Amount" in this Article).

- (4) If the Prime Minister finds it to be necessary for the protection of investors, the Prime Minister may order a person that has concluded a contract as referred to in the preceding paragraph with a Financial Services Provider, or may order the relevant Financial Services Provider, to deposit all or part of the amount equivalent to the Contract Amount.
- (5) A Financial Services Provider must not begin Financial Instruments Business until it deposits the business security deposit referred to in paragraph (1) (or until it concludes a contract set forth in paragraph (3)) and notifies the Prime Minister of this.
- (6) A person that concludes an Investment Advisory Contract with a Financial Services Provider, a person that concludes an Investment Advisory Contract or Discretionary Investment Contract based on a Financial Services Provider's agency or intermediation for that Investment Advisory Contract or an Discretionary Investment Contract, or a person that concludes a purchase and sale contract for Securities based on a Financial Services Provider's purchase and sale of Securities or its intermediation, brokerage, or agency for such a purchase and sale, has the right to receive payment of a claim arising from such a contract out of the business security deposit furnished by the Financial Services Provider, in preference over other creditors.
- (7) The necessary particulars relevant to the exercise of the right referred to in the preceding paragraph are specified by Cabinet Order.
- (8) If the amount of a business security deposit (including the Contract Amount; the same applies in paragraph (10)) comes to fall short of the amount specified by Cabinet Order as prescribed in paragraph (2) due to the exercise of the right referred to in paragraph (6) or for any other reason, the Financial Services Provider shall deposit the shortfall (or conclude a contract set forth in paragraph (3)) within three weeks from the day specified by Cabinet Office Ordinance and notify the Prime Minister of this without delay.
- (9) National government bonds, municipal bonds, and other Securities specified by Cabinet Office Ordinance may serve as a business security deposit that is deposited pursuant to the provisions of paragraph (1) or the preceding paragraph.
- (10) If the registration referred to in Article 29 is rescinded pursuant to the provisions of Article 52, paragraph (1) or (4) or Article 54, if the registration referred to in Article 29 loses its effect pursuant to the provisions of Article 50-

2, paragraph (2), if a person has had a change registered as referred to in paragraph (4) of the preceding Article in connection with its engagement in the Financial Instruments Business other than in Type II Financial Instruments Business (but only if an individual engages in such business) or Investment Advisory and Agency Services, or if the amount of a business security deposit exceeds the amount specified by Cabinet Order as prescribed in paragraph (2), all or part of the business security deposit that is deposited pursuant to the provisions of paragraph (1), (4), or (8) may be refunded pursuant to the provisions of Cabinet Order.

(11) Beyond what is prescribed in the preceding paragraphs, the necessary particulars relevant to a business security deposit are specified by Cabinet Office Ordinance and by Ordinance of the Ministry of Justice.

(Restriction on the Use of Trade Names)

Article 31-3 A person that is not a Financial Services Provider must not use a trade name or name that refers to it as a Financial Services Provider, and must not use any trade name or name that is confusingly similar to this.

(Notification on Assumption of the Position of Director)

Article 31-4 (1) If the director or executive officer of a Financial Services Provider (limited to a person engaged in Type I Financial Instruments Business or Investment Management; hereinafter the same applies in this paragraph) assumes the position of director, accounting advisor (or, if the accounting advisor is a corporation, the position of a staff member that performs those duties; hereinafter the same applies in this and the following paragraphs), company auditor, or executive officer of another company (including if a director, accounting advisor, company auditor, or executive officer of another company is to concurrently hold the position of director or executive officer of the Financial Services Provider), or if that person resigns from the position of director, accounting advisor, company auditor, or executive officer of another company, that person must notify the Prime Minister of this without delay, pursuant to the provisions of Cabinet Office Ordinance.

(2) If the director or executive officer of a Financial Services Provider (limited to a person engaged in Securities Services other than Type I Financial Instruments Business) assumes the position of director, accounting advisor, company auditor, or executive officer of the Parent Bank, etc. or Subsidiary Bank, etc. of said Financial Services Provider (including if a director, accounting advisor, company auditor or executive officer of the Parent Bank, etc. or Subsidiary Bank, etc. comes to concurrently hold the position of director or executive officer of the Financial Services Provider), or if that person resigns from the position of director, accounting advisor, company auditor, or executive

officer of the Parent Bank, etc. or Subsidiary Bank, etc., that person must notify the Prime Minister of this without delay, pursuant to the provisions of Cabinet Office Ordinance.

- (3) The term "Parent Bank, etc." as used in the preceding paragraph means a bank or Cooperative Financial Institution, or a person that falls under any other category of financial institution specified by Cabinet Order, which Cabinet Order specifies as satisfying the requirement of being a corporation or other organization that holds the majority of all shareholders', etc. voting rights in a Financial Services Provider, or of being a corporation or other organization which is otherwise closely related to such a Financial Services Provider (such a corporation or other organization is referred to as a "Parent Corporation, etc." in Article 33-3, paragraph (2), item (iii) and Article 44-3).
- (4) The term "Subsidiary Bank, etc." as used in paragraph (2) means a bank or Cooperative Financial Institution, or a person that falls under any other category of financial institution specified by Cabinet Order, which Cabinet Order specifies as satisfying the requirement of being a corporation or other organization in which a Financial Services Provider holds the majority of all shareholders', etc. voting rights, or of being a corporation or other organization which is otherwise closely related to such a Financial Services Provider (such a corporation or other organization is referred to as a "Subsidiary Corporation, etc." in Article 33-3, paragraph (2), item (iii) and Article 44-3).
- (5) The necessary particulars relevant to a determination of whether the majority of all shareholders', etc. voting rights are held as prescribed in paragraph (3) are specified by Cabinet Office Ordinance in consideration of the manner in which they are held and other circumstances.

(Eligibility as a Director)

Article 31-5 The provisions of the proviso to Article 331, paragraph (2) (including as applied mutatis mutandis pursuant to Article 335, paragraph (1) of the Companies Act); Article 332, paragraph (2) (including as applied mutatis mutandis pursuant to Article 334, paragraph (1) of that Act); Article 336, paragraph (2); and the proviso to Article 402, paragraph (5) of that Act do not apply to Financial Services Providers (limited to those engaged in Type I Financial Instruments Business or Investment Management).

### **Subsection 3 Major Shareholders**

(Submission of a Statement of Holdings in Subject Voting Rights)

Article 32 (1) A person that has become the Major Shareholder (meaning a Major Shareholder as prescribed in Article 29-4, paragraph (2); hereinafter the same applies in this Section) of a Financial Services Provider (limited to one engaged

in Type I Financial Instruments Business or Investment Management and excluding foreign corporations; hereinafter the same applies in this Subsection) must submit a statement of holdings in Subject Voting Rights which states the Subject Voting Right holding rate (meaning the rate arrived at when the number of Subject Voting Rights held by the holder of said Subject Voting Rights is divided by the number of all shareholders', etc. voting rights in said Financial Services Provider), the purpose for which they are held, and other particulars specified by Cabinet Office Ordinance to the Prime Minister, without delay, pursuant to the provisions of Cabinet Office Ordinance.

- (2) A document pledging that the relevant person does not fall under the purview of Article 29-4, paragraph (1), item (v), sub-item (d)1. or 2., or sub-item (e)1. to 3. inclusive, and other documents specified by Cabinet Office Ordinance must accompany the statement of holdings in Subject Voting Rights referred to in the preceding paragraph.
- (3) If a Major Shareholder other than the Specified Major Shareholder of a Financial Services Provider becomes the Specified Major Shareholder of said Financial Services Provider, it must notify the Prime Minister of this without delay, pursuant to the provisions of Cabinet Office Ordinance.
- (4) The term "Specified Major Shareholder" as used in the preceding paragraph means a person that holds Subject Voting Rights exceeding 50 percent of all shareholders', etc. voting rights in a company.
- (5) The provisions of Article 29-4, paragraph (4) apply mutatis mutandis if the provisions of the preceding paragraph are applicable.

(Order for Measures to Be Taken by a Major Shareholder)

- Article 32-2 (1) If the Major Shareholder of a Financial Services Provider falls under one of the categories in Article 29-4, paragraph (1), item (v), sub-item (d)1. or 2. or sub-item (e)1. to 3. inclusive, the Prime Minister may order said Major Shareholder to take measures so that it will cease to be the Major Shareholder of said Financial Services Provider or to take any other necessary measures within a fixed period of no longer than three months.
- (2) If the Prime Minister finds it to be particularly necessary in the public interest or for the protection of investors in light of state of the business or assets of the Specified Major Shareholder (meaning a Specified Major Shareholder as provided for in paragraph (4) of the preceding Article; the same applies hereinafter) of a Financial Services Provider (if such a Specified Major Shareholder is a corporation, this includes the state of the assets of a Subsidiary Corporation, etc. of such Specified Major Shareholder (meaning a person falling under the category of a corporation or other organization in which the Specified Major Shareholder holds the majority of all shareholders', etc. voting rights, or that otherwise satisfies the requirements specified by

Cabinet Order as a corporation or other organization that is closely related to the Specified Major Shareholder)), the Prime Minister, within the scope of this necessity, may order said Specified Major Shareholder to take measures that are necessary for improving the Financial Services Provider's business operations or the state of its assets.

- (3) If the Specified Major Shareholder of a Financial Services Provider violates an order under the preceding paragraph, the Prime Minister may order the Specified Major Shareholder to take measures so that it will cease to be the Major Shareholder of said Financial Services Provider or to take other necessary measures within a fixed period of no longer than three months.

(Notification of Having Ceased to Be a Major Shareholder)

Article 32-3 (1) If the Major Shareholder of a Financial Services Provider ceases to be the Major Shareholder of said Financial Services Provider, it must notify the Prime Minister of this without delay.

- (2) If the Specified Major Shareholder of a Financial Services Provider becomes a Major Shareholder other than the Specified Major Shareholder of said Financial Services Provider, it shall notify the Prime Minister of this without delay, pursuant to the provisions of Cabinet Office Ordinance.

(Mutatis Mutandis Application of Provisions on Major Shareholders)

Article 32-4 The provisions of Article 32, paragraphs (1) and (2), Article 32-2, paragraph (1) and paragraph (1) of the preceding Article apply mutatis mutandis to the shareholders or equity investors of a Holding Company that has a Financial Services Provider as its Subsidiary Company (meaning a Subsidiary Company as prescribed in Article 29-4, paragraph (3)).

#### **Subsection 4 Registered Financial Institutions**

(Prohibition on Engagement in Securities Services by Financial Institutions)

Article 33 (1) It is prohibited for a bank or Cooperative Financial Institution, or for any other financial institution specified by Cabinet Order (hereinafter collectively referred to as a "Financial Institution" in this Article, the following Article and Article 201) to engage in Securities Services or Investment Management; provided, however, that with regard to Securities Services, this does not apply if the Financial Institution conducts the sale and purchase of Securities or Transactions of Securities-Related Derivatives for the purpose of investment pursuant to the provisions of other Acts or on the account of a person that entrusts it to do so based on a trust contract.

- (2) The provisions of the main clause of the preceding paragraph do not apply if a Financial Institution conducts brokerage with written orders (meaning

conducting a purchase and sale of Securities or a Transaction of Securities-Related Derivatives on a customer's account upon receiving written orders from the customer, and excluding transactions conducted based on its solicitation of a customer for such an order and transactions conducted upon the receipt of an order from the customer in connection with the Financial Institution's Investment Advisory Services; the same applies in item (i) of the following Article) or performs the act set forth in the relevant of the following items in connection with the Securities or transactions set forth in that item:

(i) Securities set forth in Article 2, paragraph (1), items (i) and (ii); Securities set forth in Article 2, paragraph (1), item (iii) (limited to those for which the government guarantees the redemption of the principal or the payment of interest, short-term bonds prescribed in Article 54-4, paragraph (1) of the Credit Union Act (Act No. 238 of 1951), and short-term agriculture and forestry bonds prescribed in Article 62-2, paragraph (1) of the Agriculture and Forestry Credit Union Act (Act No. 93 of 2001)); Securities set forth in Article 2, paragraph (1), item (iv); Securities set forth in Article 2, paragraph (1), item (v) (limited to those for which the government guarantees the redemption of the principal or the payment of interest, and short-term corporate bonds prescribed in Article 66, paragraph (1) of the Act on the Transfer of Corporate Bonds, etc. or those specified by Cabinet Order as similar to these); Securities set forth in Article 2, paragraph (1), item (viii); Securities set forth in Article 2, paragraph (1), item (xi) (limited to short-term investment corporation bonds prescribed in Article 139-12, paragraph (1) of the Act on Investment Trusts and Investment Corporations and those specified by Cabinet Order as similar to these; referred to as "Short-Term Investment Corporation Bonds, etc." in the following item); Securities set forth in Article 2, paragraph (1), items (xii) to (xiv) inclusive; Securities set forth in Article 2, paragraph (1), item (xv) (limited to those with a term between the day of issuance and the day of redemption of less than one year); Securities set forth in Article 2, paragraph (1), item (xvi); Securities specified by Cabinet Order among those set forth in Article 2, paragraph (1), item (xvii); Securities set forth in Article 2, paragraph (1), item (xviii); Securities specified by Cabinet Order among those set forth in Article 2, paragraph (1), item (xxi); and rights set forth in the items of Article 2, paragraph (2) that are deemed to be Securities pursuant to the provisions of that paragraph (excluding rights specified by Cabinet Order set forth in item (iv)): acts set forth in Article 2, paragraph (8), items (i) to (iii) inclusive, (vi), (viii), and (ix);

(ii) Securities set forth in Article 2, paragraph (1), items (x) and (xi) (excluding Short-Term Investment Corporation Bonds, etc.): acts set forth in Article 2, paragraph (8), items (i) to (iii) inclusive, and acts set forth in Article 2,

- paragraph (8), item (ix) (excluding dealings in a Secondary Distribution of Securities and in an exclusive Offer to Sell, etc. to Professional Investors);
- (iii) Securities set forth in Article 2, paragraph (1), item (xvii) that have the nature set forth in Article 2, paragraph (1), item (i): the following acts:
- (a) Market Transactions of Derivatives, Foreign Market Transaction of Derivatives, and acts set forth in Article 2, paragraph (8), item (ii) or (iii) in connection with these transactions;
  - (b) dealings in a Private Placement; and
  - (c) acts set forth in Article 2, paragraph (11), items (i) to (iii) inclusive (excluding those set forth in sub-items (a) and (b)) that the Financial Institution is entrusted with by a Financial Services Provider (limited to those engaged in Type I Financial Instruments Business) and performs for said Financial Services Provider.
- (iv) Securities other than those set forth in the preceding three items, and rights set forth in Article 2, paragraph (2), items (iii) and (iv) that are deemed to be Securities pursuant to the provisions of Article 2, paragraph (2) and that are specified by Cabinet Order: the following acts:
- (a) dealings in a Private Placement (excluding those involving Securities specified by Cabinet Order); and
  - (b) acts set forth in Article 2, paragraph (11), items (i) to (iii) inclusive (excluding those set forth in sub-item (a)) that the Financial Institution is entrusted with by a Financial Services Provider (limited to those engaged in Type I Financial Instruments Business) and performs for said Financial Services Provider.
- (v) the following transactions: acts set forth in Article 2, paragraph (8), item (iv) (with regard to transactions set forth in sub-item (b), excluding those that fall under the category of cases specified by Cabinet Order as those in which the transaction is conducted with a large number of persons as the other parties thereto):
- (a) Over-the-Counter Derivatives Transactions of Securities set forth in item (i) (including indices calculated by the method agreed upon between the parties based on the prices of two or more Securities connected with the relevant Securities); and
  - (b) Over-the-Counter Derivatives Transactions that are connected with the Securities set forth in the preceding three items (including indices calculated by the method agreed between the parties based on prices of two or more Securities pertaining to said Securities), and that can only be settled through the delivery and receipt of the difference in prices.
- (vi) the purchase and sale of Securities, Transactions of Securities-Related Derivatives, and other transactions specified by Cabinet Order: Brokerage for the Clearing of Securities, etc.

(3) The provisions of Article 29 do not apply if a Financial Institution performs acts other than those set forth in Article 28, paragraph (8), items (iii) to (vi) inclusive (hereinafter referred to as "Transactions of Securities-Related Derivatives, etc.") among the following acts (hereinafter referred to as "Derivatives Transactions, etc.") in the course of trade, performs acts other than those set forth in Article 28, paragraph (8), item (vii) among those specified in Article 2, paragraph (8), item (v) in the course of trade, performs acts set forth in Article 2, paragraph (8), item (vii) in the course of trade, or provides Investment Advisory and Agency Services or Securities, etc.

Management:

(i) Market Transactions of Derivatives, etc. (meaning Market Transactions of Derivatives and acts set forth in Article 2, paragraph (8), item (ii) or (iii) in connection with the same);

(ii) Over-the-Counter Derivatives Transactions, etc.; and

(iii) Foreign Market Transaction of Derivatives, etc. (meaning Foreign Market Transaction of Derivatives and acts set forth in Article 2, paragraph (8), item (ii) or (iii) in connection with the same).

(Registration of Financial Institutions)

Article 33-2 A Financial Institution must be registered by the Prime Minister if it seeks to perform any of the following acts in the course of trade, or if it seeks to provide Investment Advisory and Agency Services or engage in Securities, etc. Management:

(i) brokerage with written orders;

(ii) an act specified in one of the items of paragraph (2) of the preceding Article in connection with the Securities or transactions set forth in the relevant item (excluding those falling under the proviso to paragraph (1) of that Article);

(iii) Derivatives Transactions, etc. other than Transactions of Securities-Related Derivatives, etc. (excluding those conducted for the purpose of investment pursuant to the provisions of other Acts or on the account of a person that entrusts the Financial Institution to do so based on a trust contract), or acts other than those set forth in Article 28, paragraph (8), item (vii) among those specified in Article 2, paragraph (8), item (v); or

(iv) acts set forth in Article 2, paragraph (8), item (vii).

(Application for the Registration of a Financial Institution)

Article 33-3 (1) A person seeking the registration referred to in the preceding Article must submit a written application for registration to the Prime Minister, in which it states the following particulars:

(i) its trade name or name;

- (ii) the amount of stated capital, the total amount of funds, or the total amount of contributions;
  - (iii) the names of its officers;
  - (iv) the names of its accounting advisors, if it is a company with accounting advisors;
  - (v) the names and locations of its head office and other business offices or offices;
  - (vi) if the person engages in other business, the business type; and
  - (vii) other particulars specified by Cabinet Office Ordinance.
- (2) The following documents must accompany the written application for registration referred to in the preceding paragraph:
- (i) a document pledging that the applicant does not fall under Article 33-5, paragraph (1), items (i) and (ii);
  - (ii) a document stating the person's way of managing the risk of loss, the way that duties are divided, and the other things specified by Cabinet Office Ordinance as constituting the business outline and business methods;
  - (iii) a document stating the things specified by Cabinet Office Ordinance as constituting the person's status as a Parent Corporation, etc., Subsidiary Corporation, etc., or other affiliated company; and
  - (iv) its articles of incorporation, certificate of registered information, balance sheet, profit and loss statement, and other documents specified by Cabinet Office Ordinance, other than those that are set forth in the preceding three items.
- (3) As concerns the documents set forth in item (iv) of the preceding paragraph accompanying a written application for registration, if the articles of incorporation or balance sheet have been prepared as electronic or magnetic records or if electronic or magnetic records have been prepared for a profit and loss statement in lieu of a written document, such electronic or magnetic records (limited to those specified by Cabinet Office Ordinance) may accompany the written application for registration in lieu of the written documents.

(Registration in a Financial Institutions Register)

- Article 33-4 (1) Whenever an application is filed for the registration referred to in Article 33-2, unless the Prime Minister refuses the registration pursuant to the provisions of paragraph (1) of the following Article, the Prime Minister shall register the following particulars in a financial institutions register:
- (i) the particulars set forth in the items of paragraph (1) of the preceding Article; and
  - (ii) the date of registration and the registration number.
- (2) The Prime Minister must make the financial institutions register available

for public inspection.

(Refusal etc. to Register a Financial Institution)

Article 33-5 (1) The Prime Minister must refuse to effect a registration if the applicant for registration falls under one of the following items (with regard to item (iii), this excludes if the applicant seeks to conduct only Investment Advisory and Agency Services), or if the written application for registration or a document or electronic or magnetic record that is required to accompany it contains a false statement or record or omits a statement or record of a material fact:

- (i) a person that has had the registration referred to in Article 33-2 rescinded pursuant to the provisions of Article 52-2, paragraph (1); that has had the registration referred to in Article 66 rescinded pursuant to the provisions of Article 66-20, paragraph (1); or that has had the registration referred to in Article 66-27 rescinded pursuant to Article 66-42, paragraph (1); if five years have not yet passed since the date of that rescission; or a person that had obtained a registration of the same kind in a foreign state pursuant to the provisions of a foreign law or regulation that is equivalent to this Act (including permission or any other administrative disposition similar to such a registration), but that has had that registration rescinded, if five years have not yet passed since the date of the rescission;
- (ii) a person that has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of this Act; the Secured Bonds Trust Act; the Act on Engagement in Trust Business by a Financial Institution; the Commodity Futures Act; the Act on Investment Trusts and Investment Corporations; the Real Estate Brokerage Act; the Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates; the Installment Sales Act; the Money Lending Business Act; the Act on the Deposit, etc. Transaction Agreements of Specified Commodities, etc.; the Act Regulating Business Involving Commodity Investment; the Specified Joint Real Estate Ventures Act; the Act on the Securitization of Assets; the Act on Corporate Bond Issuance for Financial Corporations' Loan Business; the Trust Business Act; or any other Act specified by Cabinet Order, or for violating the provisions of a foreign law or regulation that is equivalent to one of these Acts, if five years have not yet passed since the day on which the person finished serving the sentence or ceased to be subject to its enforcement; or
- (iii) a person that does not have a sufficient personnel structure to perform the services of a registered financial institution (meaning business in connection with the registration set forth in Article 33-2; the same applies hereinafter) in an appropriate manner.

(2) If the Prime Minister registers that a bank or Cooperative Financial Institution, or any other financial institution specified by Cabinet Order, performs the act specified in Article 33, paragraph (2), item (v) in connection with transactions set forth in that item in the course of trade, the Prime Minister must add the conditions specified by Cabinet Office Ordinance within the necessary scope for ensuring fair transactions in connection with share certificates.

(Notification of a Change)

Article 33-6 (1) If the particulars set forth in one of the items of Article 33-3, paragraph (1) changes, the registered financial institution must notify the Prime Minister of this within two weeks from the day of the change.

(2) Upon accepting a notification under the preceding paragraph, the Prime Minister shall register the particulars given in the notification in a financial institutions register.

(3) If the business outline or business methods that a registered financial institution has stated in the documents set forth in Article 33-3, paragraph (2), item (ii) change, the registered financial institution must notify the Prime Minister of this without delay pursuant to the provisions of Cabinet Office Ordinance.

(Provisions on Interpretation)

Article 33-7 The provisions of Article 33 do not preclude the Prime Minister from granting the registration referred to in Article 29 or the authorization referred to in Article 30, paragraph (1) to a person in which a bank or Cooperative Financial Institution, or any other financial institution specified by Cabinet Order, holds the majority of all shareholders', etc. voting rights

(Special Provisions, etc. for When Trust Business Is Engaged In)

Article 33-8 (1) With regard to the application of the provisions of Article 33, paragraphs (1) and (2); Article 33-2; and Article 52-2, paragraph (1), item (iv) if a bank or Cooperative Financial Institution, or any other financial institution specified by Cabinet Order, is a financial institution that has obtained the authorization referred to in Article 1, paragraph (1) of the Act on Engagement in Trust Business by a Financial Institution, in Article 33, paragraph (1), the phrase "Securities Services or Investment Management" is deemed to be replaced with "Securities Services"; in Article 33, paragraph (2), the term "excluding transactions conducted based on its solicitation of a customer for such an order and transactions conducted upon the receipt of an order from the customer in connection with the Financial Institution's Investment Advisory Services" is deemed to be replaced with "excluding transactions conducted

based on its solicitation of a customer for such an order"; in Article 33-2, the term "Investment Advisory and Agency Services or Securities, etc.

Management" is deemed to be replaced with "Investment Advisory and Agency Services, Investment Management (excluding the business of performing the acts set forth in Article 2, paragraph (8), item (xiv) or (xv) (limited to acts performed with the money under these provisions or other properties held as trust property); hereinafter the same applies in this Chapter), or Securities, etc. Management"; and in Article 52-2, paragraph (1), item (iv), the term "Investment Advisory and Agency Services" is deemed to be replaced with "Investment Advisory and Agency Services or Investment Management".

- (2) The provisions of Article 29 do not apply if a person set forth in one of the following items acts as the agent for a registered financial institution in providing the services prescribed in the relevant item (hereinafter referred to as "Specified Financial Instruments Transaction Services" in this Article) pursuant to the provisions of Cabinet Order. In this case, the person that provides Specified Financial Instruments Transaction Services is deemed to be an employee of the registered financial institution that the person acts as the agent for, and the provisions of this Act apply:
- (i) a person that acts as the agent for a registered financial institution and that is specified by Cabinet Order: the business of performing acts specified in Article 33, paragraph (2), item (ii) with regard to Securities set forth in that item;
  - (ii) a person that acts as agent for a registered financial institution and that is set forth in the following: among transactions set forth in Article 2, paragraph (22), item (ii) that are connected with the Financial Indicators set forth in Article 2, paragraph (25), item (ii), the business of performing acts in which the registered financial institution promises to receive money from the other party to a transaction and to pay the other party the amount of money calculated based on the difference between the Agreed Figure and the Actual Figure (but only if said other party has no risk of incurring a loss exceeding the amount of money the other party has paid in advance due to the fluctuation of a Financial Indicator set forth in Article 2, paragraph (25), item (ii));
    - (a) a Non-life Insurance Agent (meaning a Non-life Insurance Agent as prescribed in Article 2, paragraph (21) of the Insurance Business Act; hereinafter the same applies in this item) that is an individual;
    - (b) the employee of an individual Non-life Insurance Agent, for which the notification under the provisions of Article 302 of the Insurance Business Act has been made;
    - (c) the officer or employee of a corporate Non-life Insurance Agent, for which a notification under the provisions of Article 302 of the Insurance Business

- Act has been made; and
- (d) an officer that holds the authority of representation for a corporate Non-life Insurance Agent.
- (3) A registered financial institution for which a person that provides Specified Financial Instruments Transaction Services acts as an agent is liable for the damages that the person causes to a customer in connection with Specified Financial Instruments Transaction Services; provided, however, that this does not apply if the registered financial institution exercises due care in appointing the person, and endeavors to prevent the damage that the person causes to a customer in connection with the Specified Financial Instruments Transaction Services that the person performs.

### **Subsection 5 Professional Investors**

(Obligation to Notify Professional Investors)

Article 34 If a Financial Services Provider, etc. (meaning a Financial Services Provider or registered financial institution; the same applies hereinafter) receives an offer from a Professional Investor (limited to one set forth in Article 2, paragraph (31), item (iv)) for a contract for the Financial Services Provider, etc. to perform an act that constitutes a Financial Instruments transaction (meaning an act as set forth in the items of Article 2, paragraph (8); the same applies hereinafter) with the customer as the other party or on behalf of the customer (hereinafter such contract is referred to as a "Financial Instruments Transaction Contract"), and has never in the past concluded a Financial Instruments Transaction Contract with that Professional Investor of a type specified by Cabinet Office Ordinance as constituting the same contract type as the Financial Instruments Transaction Contract to which the offer pertains (hereinafter referred to as a "Contract Type" in this Subsection), the Financial Services Provider, etc., before concluding the Financial Instruments Transaction Contract to which the offer pertains, must notify that Professional Investor that the Professional Investor may make a request under the provisions of paragraph (1) of the following Article.

(Cases in Which a Professional Investor Is Deemed to Be a Customer Other Than a Professional Investor)

- Article 34-2 (1) For each Contract Type, a Professional Investor (limited to one as set forth in Article 2, paragraph (31), item (iv)) may request a Financial Services Provider, etc. to treat the Professional Investor as a customer other than a Professional Investor with regard to Financial Instruments Transaction Contracts that are of the same Contract Type.
- (2) Upon receiving a request under the provisions of the preceding paragraph, a

Financial Services Provider, etc. must approve that request by the time it solicits the conclusion of the first Financial Instruments Transaction Contract thereafter that is of the same Contract Type as that to which the request pertains (hereinafter referred to as a "Subject Contract" in this Article) or by the time it concludes such a contract.

- (3) Before a Financial Services Provider, etc. approves a request pursuant to the provisions of the preceding paragraph, it shall deliver a document stating the following particulars to the Professional Investor that submitted the request under paragraph (1) (hereinafter referred to as a "Applicant" in this Article):
  - (i) the day on which the request is approved pursuant to the provisions of the preceding paragraph (hereinafter referred to as the "Approval Date" in this Article);
  - (ii) the Contract Type to which the Subject Contract belongs;
  - (iii) an indication that it will treat the Applicant as a customer other than a Professional Investor if it solicits the Applicant to conclude a Subject Contract or concludes a Subject Contract with the Applicant on or after the Approval Date; and
  - (iv) other particulars specified by Cabinet Office Ordinance.
- (4) With the consent of the Applicant and pursuant to the provisions of Cabinet Order, in lieu of delivering the document under the provisions of the preceding paragraph, a Financial Services Provider, etc. may provide the Applicant with the particulars that are required to be stated in that document by means of an electronic data processing system or by any other means of information and communications technology specified by Cabinet Office Ordinance. In doing this, the Financial Services Provider, etc. is deemed to have delivered the document.
- (5) With regard to the application of the provisions of this Act (excluding this Subsection) if a Financial Services Provider, etc. gives the approval under the provisions of paragraph (2) or delivers the document under the provisions of paragraph (3), and the Applicant is a person set forth in one of the following items, the Applicant is deemed to be a customer other than a Professional Investor:
  - (i) the other party to the Financial Services Provider's, etc. solicitation to conclude a Subject Contract on or after the Approval Date; or
  - (ii) the other party with which the Financial Services Provider, etc. concludes a Subject Contract on or after the Approval Date.
- (6) If the preceding paragraph applies to an Applicant with regard to the conclusion of a Subject Contract (limited to one that entails the Financial Services Provider, etc. acting as an agent as provided in Article 2, paragraph (8), items (ii) to (iv) inclusive, (x) and (xiii); hereinafter referred to as a "Specified Subject Contract" in this paragraph and paragraph (8)), before the

- Financial Services Provider, etc. concludes a Financial Instruments Transaction Contract on behalf of the Applicant based on the Specified Subject Contract, the Financial Services Provider, etc. must notify the other Financial Services Provider, etc. with which the Financial Instruments Transaction Contract is to be concluded (hereinafter referred to as the "Counterparty Financial Services Provider, etc." in the following paragraph and paragraph (8)) that the Applicant is deemed to be a customer other than a Professional Investor in connection with the Financial Instruments Transaction Contract.
- (7) If a Financial Services Provider, etc. gives a notification under the preceding paragraph, the provisions of the preceding Article do not apply to the Counterparty Financial Services Provider, etc.
- (8) If a Financial Services Provider, etc. that has concluded a Specified Subject Contract gives a notification under the provisions of paragraph (6), the Applicant is deemed to be a customer other than a Professional Investor with regard to any Financial Instruments Transaction Contract that the Financial Services Provider, etc. concludes with the Counterparty Financial Services Provider, etc. on behalf of the Applicant based on the Specified Subject Contract, and the provisions of this Act (excluding this Subsection) apply.
- (9) If an Applicant newly becomes a qualified institutional investor on or after the Approval Date, the provisions of paragraphs (5) to (9) inclusive do not apply to the Applicant on or after the day on which the Applicant becomes a qualified institutional investor.
- (10) An Applicant may request a Financial Services Provider, etc. to treat the Applicant as a Professional Investor again with regard to Subject Contracts, at any time on or after the Approval Date;
- (11) Before approving a request under the preceding paragraph, a Financial Services Provider, etc. must obtain the written consent of the person making that request (such person is referred to as the "Person Requesting Reinstatement" in the following paragraph), on a document that states the day on which the request has the approval under this paragraph and any other particulars specified by Cabinet Office Ordinance.
- (12) With the agreement of the Person Requesting Reinstatement and pursuant to the provisions of Cabinet Order, in lieu of obtaining the written consent under the preceding paragraph, a Financial Services Provider, etc. may obtain written consent by means of an electronic data processing system or any other means of information and communications technology that is specified by Cabinet Office Ordinance. In doing this, the Financial Services Provider, etc. is deemed to have obtained written consent.
- (13) If a Financial Services Provider, etc. gives the approval under paragraph (11), the provisions of paragraphs (5), (6), and (8) do not apply during the period from the day on which it gives the approval under paragraph (11) until

the day immediately preceding the day on which it gives the new approval pursuant to paragraph (2).

(When a Customer Other than a Professional Investor Is a Corporation and That Corporation Is Deemed to Be a Professional Investor)

Article 34-3 (1) For each Contract Type, a corporation (excluding a Professional Investor) may request a Financial Services Provider, etc. to treat it as a Professional Investor with regard to Financial Instruments Transaction Contracts that are of the same Contract Type.

(2) Before approving a request under the preceding paragraph, a Financial Services Provider, etc. must obtain the written consent of the corporation making the request (hereinafter referred to as the "Applicant" in this Article), on a document that states the following particulars. In this, it shall make the End Date provided for in item (ii) the day on which one year elapses counting from the Approval Date provided for in item (i) (or, in a case specified by Cabinet Office Ordinance, a day before that one year elapses, which is specified by Cabinet Office Ordinance):

(i) the day on which it gives the approval under this paragraph (hereinafter referred to as the "Approval Date" in this Article);

(ii) the last day of the period during which it will treat the Applicant as a Professional Investor in soliciting the Applicant to conclude a Financial Instruments Transaction Contract that is of the same Contract Type as the one to which the request pertains (hereinafter such a contract is referred to as a "Subject Contract" in this Article; hereinafter such day is referred to as the "End Date" in this Article) or in concluding a Subject Contract with said Applicant before the End Date;

(iii) the Contract Type to which the Subject Contract belongs;

(iv) an indication that the Applicant understands the following particulars:

(a) particulars specified by Cabinet Office Ordinance as special provisions for the application of this Act if a Professional Investor is solicited to conclude a Subject Contract by a Financial Services Provider, etc., if a Professional Investor offers a Subject Contract to the Financial Services Provider, etc., or concludes a Subject Contract with the Financial Services Provider, etc.; and

(b) an indication of the risk of insufficient protection involved, if a person that it is inappropriate to treat as a Professional Investor in connection with the Subject Contracts, in light of its knowledge, experience, and the state of its assets, will be treated as a Professional Investor.

(v) an indication that it will treat the Applicant as a Professional Investor in soliciting the Applicant to conclude a Subject Contract before the End Date or in concluding a Subject Contract with the Applicant before the End Date;

- (vi) an indication that it will treat the Applicant as a customer other than a Professional Investor in soliciting the Applicant to conclude a Subject Contract after the End Date or in concluding a Subject Contract with the Applicant after the End Date; and
  - (vii) other particulars specified by Cabinet Office Ordinance.
- (3) The provisions of paragraph (12) of the preceding Article apply mutatis mutandis to the written consent under the preceding paragraph.
- (4) With regard to the application of the provisions of this Act (excluding this Subsection) if a Financial Services Provider, etc. gives the approval under paragraph (2), the Applicant gives the written consent under that paragraph, and the Applicant is a person set forth in one of the following items, the Applicant is deemed to be a Professional Investor:
- (i) a person that the Financial Services Provider, etc. solicits to conclude a Subject Contract during the period from the Approval Date to the End Date; or
  - (ii) a person with which the Financial Services Provider, etc. concludes a Subject Contract during the period from the Approval Date to the End Date.
- (5) If the preceding paragraph applies to an Applicant in connection with the conclusion of a Subject Contract (limited to one that entails the Financial Services Provider, etc. acting as an agent as provided in Article 2, paragraph (8), items (ii) to (iv) inclusive, (x) and (xiii); hereinafter referred to as a "Specified Subject Contract" in this and the following paragraphs), and the Financial Services Provider, etc., acting as the Applicant's agent based on that Specified Subject Contract, concludes a Financial Instruments Transaction Contract before the Approval Date, it must notify the Counterparty Financial Services Provider, etc. with which the Financial Instruments Transaction Contract is to be concluded (referred to as the "Counterparty Financial Services Provider, etc." in the following paragraph) in advance, that the Applicant is deemed to be a Professional Investor with regard to the Financial Instruments Transaction Contract.
- (6) If a Financial Services Provider, etc. that has concluded a Specified Subject Contract gives a notification under the preceding paragraph, the Applicant is deemed to be a Professional Investor with regard to a Financial Instruments Transaction Contract that the Financial Services Provider, etc. concludes with the Counterparty Financial Services Provider, etc. while acting as the agent of the Applicant pursuant to the Specified Subject Contract (limited to a Financial Instruments Transaction Contract concluded before the End Date), and the provisions of this Act (excluding this Subsection) apply.
- (7) If the Applicant makes a request under paragraph (1) before the End Date for the same Contract Type as the Subject Contracts (such a request is referred to as the "Request for Renewal" in the following paragraph), the Applicant must

do so on or after the day on which the period specified by Cabinet Office Ordinance elapses counting from the Approval Date.

- (8) With regard to the application of the provisions of paragraph (2) and the preceding paragraph if a Applicant makes a Request for Renewal, in paragraph (2), the phrase "Approval Date prescribed in item (i)" is deemed to be replaced with "day following the previous End Date" and in the preceding paragraph, the term "Approval Date" is deemed to be replaced with "day following the previous End Date".
- (9) An Applicant may request a Financial Services Provider, etc. to treat it as a customer other than a Professional Investor again with regard to Subject Contracts, at any time on or after the Approval Date.
- (10) After receiving a request under the provisions of the preceding paragraph, a Financial Services Provider, etc. must approve said request by the time it solicits the conclusion of the first Subject Contract thereafter or by the time it first concludes such a contract thereafter.
- (11) Before approving a request pursuant to the provisions of the preceding paragraph, a Financial Services Provider, etc. must deliver a document stating the day on which it gives the approval under the preceding paragraph and any other particulars specified by Cabinet Office Ordinance to the corporation that submitted the request under paragraph (9).
- (12) The provisions of paragraph (4) of the preceding Article apply mutatis mutandis to the delivery of documents under the preceding paragraph.
- (13) If a Financial Services Provider, etc. gives the approval under paragraph (10), the provisions of paragraphs (4) to (9) inclusive do not apply for the period from the day of approval under paragraph (10) to the day immediately preceding the day on which it newly gives approval under paragraph (2).

(When a Customer Other Than a Professional Investor Is an Individual and That Individual Is Deemed to Be a Professional Investor)

Article 34-4 (1) For each Contract Type, an individual set forth in the following (excluding qualified institutional investors) may request a Financial Services Provider, etc. to treat that individual as a Professional Investor with regard to Financial Instruments Transaction Contracts that are of the same Contract Type:

- (i) an individual that is the proprietor of a business and that has concluded an silent partnership agreement as prescribed in Article 535 of the Commercial Code (excluding those specified by Cabinet Office Ordinance), or any other individual specified by Cabinet Office Ordinance as being similar thereto; and
- (ii) an individual other than one set forth in the preceding item, which satisfies the requirements specified by Cabinet Office Ordinance as a person

equivalent to a Professional Investor, in light of such individual's knowledge and experience and the state of that individual's assets.

- (2) If a Financial Services Provider, etc. receives a request under the preceding paragraph, it must deliver a document stating the particulars set forth in paragraph (2), item (iv), sub-items (a) and (b) of the preceding Article to the individual that submitted the request (hereinafter referred to as a "Applicant" in this Article), and must confirm that the Applicant falls under one of the categories of persons set forth in the items of the preceding paragraph.
- (3) The provisions of Article 34-2, paragraph (4) apply mutatis mutandis to the delivery of a document under the preceding paragraph.
- (4) An Applicant may request a Financial Services Provider, etc. to treat it as a customer other than a Professional Investor again with regard to Financial Instruments Transaction Contracts that are of the same Contract Type as the one to which the request under paragraph (1) pertains, at any time on or after the day on which the Financial Services Provider, etc. gives the approval under paragraph (2) of the preceding Article as applied mutatis mutandis pursuant to paragraph (6).
- (5) After receiving a request under the provisions of the preceding paragraph, a Financial Services Provider, etc. must approve said request by the time it solicits the conclusion of the first Financial Instruments Transaction Contract thereafter that is of the Contract Type to which the request pertains, or by the time it concludes the first such contract thereafter.
- (6) The provisions of paragraphs (2) to (8) inclusive of the preceding Article apply mutatis mutandis if a Financial Services Provider, etc. approves a request under paragraph (1), and the provisions of paragraphs (11) to (13) inclusive of that Article apply mutatis mutandis if a Financial Services Provider, etc. approves a request under paragraph (4). In this case, in Article 34-3, paragraph (2), the phrase "the corporation making the request" is deemed to be replaced with "the Applicant under paragraph (2) of the following Article"; in Article 34-3, paragraph (4), the phrase "the approval under paragraph (2)" is deemed to be replaced with "the delivery of a document and the confirmation under paragraph (2) of the following Article and the approval under paragraph (2)"; in Article 34-3, paragraph (7), the term "paragraph (1)" is deemed to be replaced with "paragraph (1) of the following Article"; in Article 34-3, paragraph (11), the phrase "the preceding paragraph" is deemed to be replaced with "paragraph (5) of the following Article" and the phrase "the corporation that submitted the request under paragraph (9)" is deemed to be replaced with "the individual that submitted the request under paragraph (4) of that Article"; in Article 34-3, paragraph (13), the term "paragraph (10)" is deemed to be replaced with "paragraph (5) of the following Article", the phrase "gives approval under paragraph (2)" is deemed to be replaced with "delivers the

documents and makes the confirmation under the provisions of paragraph (2) of that Article, as well as giving approval under paragraph (2)", and the term "(9) inclusive" is deemed to be replaced with "(8) inclusive and paragraph (4) of the following Article"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(Delegation to Cabinet Order)

Article 34-5 Beyond what is provided for in this Subsection, procedures for if a Professional Investor is deemed to be a customer other than a Professional Investor or if a customer other than a Professional Investor is deemed to be a Professional Investor and necessary particulars otherwise relevant to the application of the provisions of this Subsection are specified by Cabinet Order.

## **Section 2 Services**

### **Subsection 1 General Rules**

(Scope of Services for Persons Engaged in Type I Financial Instruments Business or Investment Management)

Article 35 (1) A Financial Services Provider (limited to one engaged in Type I Financial Instruments Business or Investment Management; hereinafter the same applies in this Article), in addition to the Financial Instruments Business, may perform the following acts in the course of trade and provide any other services incidental to the Financial Instruments Business:

- (i) the lending and borrowing of Securities, or intermediation or agency for the same;
- (ii) money lending incidental to margin transactions prescribed in Article 156-24, paragraph (1);
- (iii) money lending secured by Securities that are deposited for safe custody by customers (limited to those specified by Cabinet Office Ordinance);
- (iv) the provision of agency for customers in connection with Securities;
- (v) the provision of agency for services by the settlor company of an investment trust defined in Article 2, paragraph (11) of the Act on Investment Trusts and Investment Corporations, which involve the payment of earnings, redemption moneys, or cancellation moneys in connection with Securities set forth in Article 2, paragraph (1), item (x), or for services by such a settler company which involve the delivery of Securities or any other assets that are among trust property in connection with the relevant Securities;
- (vi) the provision of agency for services by an investment corporation as defined in Article 2, paragraph (12) of the Act on Investment Trusts and Investment Corporations, which involve the distribution of money, the distribution of refunds or residual assets, or the payment of interest or

- redemption moneys in connection with Securities set forth in Article 2, paragraph (1), item (xi) conducted;
- (vii) the conclusion of a contract for cumulative investment (meaning a contract in which a Financial Services Provider (limited to one that engages in Securities, etc. Management) receives money deposited by a customer and sells Securities to that customer continuously on dates designated in advance while receiving consideration from that money) (limited to contracts specified by Cabinet Office Ordinance);
  - (viii) the provision of information or advice in relation to Securities (excluding acts falling under Article 2, paragraph (8), item (xi));
  - (ix) the provision of agency for services by a Counterparty Financial Services Provider, etc. (limited to agency involving the Financial Instruments Business (including services of a registered financial institution conducted by a registered financial institution) and any other services incidental to the Financial Instruments Business (excluding services prescribed in this item), which the relevant Financial Services Provider, etc. may conduct, and excluding those specified in item (v) above);
  - (x) the retention of the assets of a registered investment corporation as defined in Article 2, paragraph (13) of the Act on Investment Trusts and Investment Corporations;
  - (xi) the provision of consultation to any other person or firm in business with regard to a business transfer, merger, company split, share exchange, or share transfer, or intermediation in connection with the same;
  - (xii) the provision of consultation to any other person or firm in business with regard to management;
  - (xiii) the purchase and sale of currencies and other assets specified by Cabinet Order as being related to Derivatives Transactions (excluding Transactions of Securities-Related Derivatives) or intermediation, brokerage, or agency for the same;
  - (xiv) the purchase and sale of negotiable deposits and other monetary claims (excluding those that fall under the category of Securities), or intermediation, brokerage, or agency for the same; and
  - (xv) investment of invested assets (meaning money and other property invested by a Financial Services Provider, etc. that engages in Investment Management on behalf of a rights holder as provided for in Article 42, paragraph (1), as investments in the following assets; the same applies hereinafter):
    - (a) specified assets defined in Article 2, paragraph (1) of the Act on Investment Trusts and Investment Corporations (excluding real estate and other assets specified by Cabinet Order); and
    - (b) assets specified by Cabinet Order other than those set forth in sub-item

- (a).
- (2) A Financial Services Provider, in addition to the Financial Instruments Business and other services provided pursuant to the provisions of the preceding paragraph, may provide the following services:
- (i) services connected with transactions on a commodity market, etc. defined in Article 2, paragraph (21) of the Commodity Futures Act;
  - (ii) services connected with transactions conducted by using fluctuations in commodity prices and other indicators, market gaps, etc. as specified by Cabinet Office Ordinance (other than services already specified in the preceding item);
  - (iii) services connected with the money lending business as defined in Article 2, paragraph (1) of the Money Lending Business Act or other money loans, or intermediation for the lending and borrowing of money;
  - (iv) services connected with real estate brokerage as defined in Article 2, item (ii) of the Real Estate Brokerage Act or with the lease of real estate prescribed in item (i) of that Article;
  - (v) specified joint real estate ventures as defined in Article 2, paragraph (4) of the Specified Joint Real Estate Ventures Act;
  - (v)-2 services for investing money or other assets on behalf of another person, by means of commodity investment defined by Article 2, paragraph (1) of the Act Regulating Business Involving Commodity Investment, or through the acquisition (including production), transfer, or use of goods with substantial price volatility or goods specified by Cabinet Order as goods that make it difficult to estimate the profit generated from their use (excluding the designated goods prescribed in item (iii) of that paragraph) or by means of having such goods used (excluding services that fall under the category of service set forth in items (i) and (ii));
  - (vi) services for investing invested assets (excluding services that fall under the category of services that entails performing the acts specified in item (xv) of the preceding paragraph, and also excluding services that fall under the category of services specified in items (i), (ii), and the preceding item) as an investment in assets other than Securities or rights arising from Derivatives Transactions; and
  - (vii) other services specified by Cabinet Office Ordinance.
- (3) If a Financial Services Provider comes to engage in any of the services set forth in the items of the preceding paragraph, it must notify the Prime Minister of this without delay pursuant to the provisions of Cabinet Office Ordinance.
- (4) A Financial Services Provider, in addition to the Financial Instruments Business and the services provided pursuant to paragraph (1) and paragraph (2), may perform services for which it has obtained the approval of the Prime

Minister.

- (5) When an application is filed for the approval referred to in the preceding paragraph, the Prime Minister may only choose not to grant approval if it is found that the provision of the services under the application would be contrary to the public interest or if it is found that they would compromise the protection of investors due to the difficulty in managing the risk of loss in connection with the services.
- (6) If a Financial Services Provider discontinues services of which it has given notice pursuant to paragraph (3) or services for which it has obtained approval pursuant to paragraph (4), it must notify the Prime Minister of this without delay.
- (7) If a Financial Services Provider engages in services set forth in the items of paragraph (1) or items of paragraph (2) or engages in services for which it has received the approval referred to in paragraph (4), the provisions of paragraph (1), paragraph (2), and paragraph (4) must not be construed to preclude the application of Acts concerning these services.

(Scope of Concurrent Business by Persons Who Only Engage in Type II Financial Instruments Business or Investment Advisory and Agency Services)

Article 35-2 (1) A Financial Services Provider (limited to one that only engages in Type II Financial Instruments Business or Investment Advisory and Agency Services; the same applies in the following paragraph), in addition to doing Financial Instruments Business (limited to Type II Financial Instruments Business or Investment Advisory and Agency Services), may also do other business, concurrently.

- (2) If a Financial Services Provider does any other business concurrently as prescribed in the preceding paragraph, the provisions of that paragraph must not be construed to preclude the application of Acts concerning that business.

(Duty of Sincerity to Customers)

Article 36 (1) A Financial Services Provider, etc. as well as its officers and employees must be sincere and fair to customers in the performance of its services.

- (2) A Specified Financial Services Provider, etc., pursuant to the provisions of Cabinet Office Ordinance, must appropriately manage information connected with Financial Instruments services (meaning services entailing acts that constitute Financial Instruments transactions and any other services specified by Cabinet Office Ordinance), and must establish a system for properly supervising the implementation status of Financial Instruments services and take any other measures as are necessary, in line with the transactions that

the Specified Financial Services Provider, etc. or its Parent Financial Institution, etc. or Subsidiary Financial Institution, etc. conducts, so that the interests of the customers of the Financial Instruments services that the Specified Financial Services Provider, etc. or its Subsidiary Financial Institution, etc. provides are not unjustly prejudiced.

(3) The term "Specified Financial Services Provider, etc." as used in this Article means a Financial Services Provider, etc. that conducts Securities Services (limited to a person registered as referred to in Article 29 to engage in Type I Financial Instruments Business), or that is specified by Cabinet Order.

(4) The term "Parent Financial Institution, etc." as used in paragraph (2) means a Financial Services Provider, a bank, a Cooperative Financial Institution, or any other person engaged in finance that is specified by Cabinet Order, which Cabinet Order specifies as being a person that holds the majority of all shareholders', etc. voting rights in a Specified Financial Services Provider, etc. or as being otherwise closely related to the relevant Specified Financial Services Provider.

(5) The term "Subsidiary Financial Institution, etc." as used in paragraph (2) means a Financial Services Provider, a bank, a Cooperative Financial Institution, or any other person engaged in finance that is specified by Cabinet Order, which Cabinet Order specifies as being a person in which a Specified Financial Services Provider, etc. holds the majority of all shareholders', etc. voting rights or as being otherwise closely related to the relevant Specified Financial Services Provider, etc.

#### (Posting of Signs)

Article 36-2 (1) A Financial Services Provider, etc. must post a sign in the format specified by Cabinet Office Ordinance in a place that is accessible to the public at each of its business offices or other offices.

(2) A person other than a Financial Services Provider, etc. must not post the sign referred to in the preceding paragraph or a sign similar thereto.

#### (Prohibition on Name Lending)

Article 36-3 A Financial Services Provider, etc. must not allow another person to engage in Financial Instruments Business (or, if it is a registered financial institution, to engage in the services of a registered financial institution; hereinafter the same applies in this Subsection) using the name of said Financial Services Provider, etc.

#### (Prohibition on Corporate Bond Management)

Article 36-4 (1) A Financial Services Provider (limited to one that engages in Securities Services; the same applies in the following paragraph) may not

become a bond manager as provided for in Article 702 of the Companies Act, nor may it become the trustee company under a trust contract provided for in Article 2, paragraph (1) of the Secured Bonds Trust Act.

(2) Notwithstanding the provisions of other Acts, a Financial Services Provider may become an Underwriter.

(Regulation of Advertising)

Article 37 (1) When advertising the contents of its Financial Instruments Business or performing any similar act specified by Cabinet Office Ordinance, a Financial Services Provider, etc. must give the following particulars, pursuant to the provisions of Cabinet Office Ordinance:

- (i) the trade name or name of the Financial Services Provider, etc.;
- (ii) an indication that it is a Financial Services Provider, etc., and its registration number; and
- (iii) the particulars of the contents of the Financial Instruments Business that the Financial Services Provider, etc. engages in, which is specified by Cabinet Order as material particulars that may have an impact on customers' judgment.

(2) When advertising the contents of its Financial Instruments Business or engaging in any similar act specified by Cabinet Office Ordinance, a Financial Services Provider, etc. must not make a representation that significantly conflicts with the fact of the matter or that could cause a person to have a serious misconception about the prospect of profiting from the performance of an act that constitutes a Financial Instruments transaction, or about any other matter that is specified by Cabinet Office Ordinance.

(Obligation to Clarify the Conditions of Transactions in Advance)

Article 37-2 When a Financial Services Provider, etc. has had an order from a customer for the purchase or sale of Securities or for an Over-the-Counter Derivatives Transaction, it must give the customer clear notice, in advance, regarding whether said Financial Services Provider, etc. will conclude the purchase and sale or the transaction with the customer personally, as the other party, or whether it will conduct intermediation, brokerage, or agency for the purchase and sale or the transaction.

(Delivery of Documents Prior to the Conclusion of a Contract)

Article 37-3 (1) If a Financial Services Provider, etc. seeks to conclude a Financial Instruments Transaction Contract, it must deliver a document stating the following particulars to the customer in advance, pursuant to the provisions of Cabinet Office Ordinance; provided, however, that this does not apply in cases specified by Cabinet Office Ordinance as those in which its not

doing so does not compromise the protection of investors:

- (i) the trade name or name and address of the Financial Services Provider, etc.;
  - (ii) an indication that it is a Financial Services Provider, etc., and its registration number;
  - (iii) an outline of the relevant Financial Instruments Transaction Contract;
  - (iv) the particulars specified by Cabinet Office Ordinance with regard to any fees, remuneration, or other consideration payable by the customer in connection with the Financial Instruments Transaction Contract;
  - (v) an indication of any risk that a loss will be incurred due to fluctuations in the money rate, the value of currencies, quotations on the Financial Instruments Market, and other indicators, in connection with an act that constitutes a Financial Instruments transaction carried out by the customer;
  - (vi) an indication of any risk that the amount of the loss set forth in the preceding item will exceed the amount of customer margin or any other security deposit specified by Cabinet Office Ordinance that is payable by the customer; and
  - (vii) the particulars of the contents of the relevant Financial Instruments Business other than what is set forth in the preceding items, which are specified by Cabinet Office Ordinance as material particulars that may have an impact on customers' judgment.
- (2) The provisions of Article 34-2, paragraph (4) apply mutatis mutandis to the delivery of a document under the preceding paragraph.
- (3) Before soliciting (limited to a Public Offering or Secondary Distribution, or dealings in a Public Offering or Secondary Distribution specified by Cabinet Order) the conclusion of a Financial Instruments Transaction Contract for any of the rights set forth in the items of Article 2, paragraph (2) that are deemed to be Securities under that paragraph, a Financial Services Provider, etc. must notify the Prime Minister of the contents of the document set forth in paragraph (1) regarding said Financial Instruments Transaction Contract; provided, however, that this does not apply in cases specified by Cabinet Office Ordinance as those in which its not doing so does not compromise the protection of investors.

(Delivery of Documents upon the Conclusion of a Contract)

Article 37-4 (1) When a Financial Services Provider, etc. effects a Financial Instruments Transaction Contract or when otherwise specified by Cabinet Office Ordinance, the Financial Services Provider, etc. shall prepare a document and deliver it to the customer, without delay and pursuant to the provisions of Cabinet Office Ordinance; provided, however, that this does not apply in the cases that are specified by Cabinet Office Ordinance as those in which, in consideration of the contents of the Financial Instruments

Transaction Contract and other circumstances, it is found that even if the document is not delivered to the customer, this does not compromise the public interest or the protection of investors.

- (2) The provisions of Article 34-2, paragraph (4) apply mutatis mutandis to the delivery of a document under the preceding paragraph.

(Delivery of Documents in Connection with the Receipt of a Security Deposit)

Article 37-5 (1) Whenever a Financial Services Provider, etc. receives a security deposit that is payable by the customer (limited to those specified by Cabinet Office Ordinance) in connection the Financial Instruments Business that it conducts, it must immediately deliver a document stating this to the customer, pursuant to the provisions of Cabinet Office Ordinance.

- (2) The provisions of Article 34-2, paragraph (4) apply mutatis mutandis to the delivery of a document under the preceding paragraph.

(Written Cancellation)

Article 37-6 (1) Except as otherwise specified by Cabinet Office Ordinance, a customer that has concluded a Financial Instruments Transaction Contract (limited to one that is specified by Cabinet Order in consideration of the contents of such a Financial Instruments Transaction Contract and other circumstances) with a Financial Services Provider, etc. may cancel said Financial Instruments Transaction Contract in writing, until the number of days specified by Cabinet Order has elapsed since the day on which the customer received the document set forth in Article 37-4, paragraph (1).

- (2) The cancellation of a Financial Instruments Transaction Contract under the preceding paragraph takes effect when a document indicating that the Financial Instruments Transaction Contract is cancelled is issued.
- (3) If a Financial Instruments Transaction Contract becomes subject to a cancellation under paragraph (1), the Financial Services Provider, etc. may not request the customer to pay damages or a penalty for the cancellation of that Financial Instruments Transaction Contract beyond the amount specified by Cabinet Office Ordinance as the amount of fees, remuneration, or other consideration payable by the customer with regard to that Financial Instruments Transaction Contract (referred to as a "Consideration" in the following paragraph) for the period until the cancellation of that Financial Instruments Transaction Contract.
- (4) If a Financial Instruments Transaction Contract becomes subject to a cancellation under paragraph (1), the Financial Services Provider, etc. shall refund any Consideration paid in advance for the relevant Financial Instruments Transaction Contract to the customer that paid it; provided, however, that this does not apply to the amount specified by Cabinet Office

Ordinance as prescribed in the preceding paragraph.

- (5) Any special provision that is contrary to the provisions of the preceding paragraphs and disadvantageous to a customer is void.

(Obligation to Conclude a Contract with a Designated Dispute Resolution Organization)

Article 37-7 (1) A Financial Services Provider, etc. must take the measures specified in the relevant of the following items for the category of cases set forth in said item:

- (i) if the Financial Services Provider, etc. (excluding a registered financial institution; the same applies in the following item to item (iv) inclusive) engages in Type I Financial Instruments Business: the measures specified in the relevant of the following sub-items (a) and (b) for the category of cases set forth in each sub-item:
- (a) if there is a Designated Type I Dispute Resolution Organization (meaning a Designated Dispute Resolution Organization (meaning a Designated Dispute Resolution Organization as defined in Article 156-38, paragraph (1); hereinafter the same applies in this Chapter and Chapter V-4) for which the Category of Dispute Resolution Services (meaning the Category of Dispute Resolution Services as defined in paragraph (12) of that Article; hereinafter the same applies in this Chapter and Chapter V-4) is Specified Type I Financial Instruments Transaction Services (meaning Specified Type I Financial Instruments Transaction Services as defined in paragraph (2) of that Article; hereinafter the same applies in this item); hereinafter the same applies in this item and paragraph (3), item (ii)): measures to conclude a Basic Contract for the Implementation of Dispute Resolution Procedures (meaning a Basic Contract for the Implementation of Dispute Resolution Procedures as defined in paragraph (13) of that Article; hereinafter the same applies in this Chapter and Chapter V-4) in connection with Specified Type I Financial Instruments Transaction Services with a single Designated Type I Dispute Resolution Organization);
- (b) if there is no Designated Type I Dispute Resolution Organization: complaint processing measures (meaning measures to have the person set forth in Article 156-50, paragraph (3), item (iii) provide advice or guidance to the employee or any other workers engaged in the business of processing complaints from customers (including the rights holders provided for in Article 42, paragraph (1) that are other than customers; the same applies in this sub-item (b)) or any other measures specified by Cabinet Office Ordinance as being equivalent thereto; hereinafter the same applies in this Chapter and Chapter V-4)) and dispute resolution measures (meaning measures to resolve disputes with customers through Certified Dispute

Resolution Procedures (meaning Certified Dispute Resolution Procedures as defined in Article 2, item (iii) of the Act on Promotion of Use of Alternative Dispute Resolution (Act No. 151 of 2004)) or any other measures specified by Cabinet Office Ordinance as being equivalent thereto) in connection with Specified Type I Financial Instruments Transaction Services.

(ii) if the Financial Services Provider, etc. engages in Type II Financial Instruments Business: the measures specified in the relevant of the following sub-items (a) and (b) for the category of cases set forth in each sub-item:

(a) if there is a Designated Type II Dispute Resolution Organization (meaning a Designated Dispute Resolution Organization for which the Category of Dispute Resolution Services is Specified Type II Financial Instruments Transaction Services (meaning Specified Type II Financial Instruments Transaction Services defined in Article 156-38, paragraph (3); hereinafter the same applies in this item); hereinafter the same applies in this item and paragraph (3), item (ii)): measures to conclude a Basic Contract for the Implementation of Dispute Resolution Procedures in connection with Specified Type II Financial Instruments Transaction Services with a single Designated Type II Dispute Resolution Organization;

(b) if there is no Designated Type II Dispute Resolution Organization: complaint processing measures and dispute resolution measures in connection with Specified Type II Financial Instruments Transaction Services;

(iii) if the Financial Services Provider, etc. engages in Investment Advisory and Agency Services: the measures specified in the relevant of the following sub-items (a) and (b) for the category of cases set forth in each sub-item:

(a) if there is a Designated Investment Advisory and Agency Services Dispute Resolution Organization (meaning a Designated Dispute Resolution Organization for which the Category of Dispute Resolution Services is Specified Investment Advisory and Agency Services (meaning Specified Investment Advisory and Agency Services as defined in Article 156-38, paragraph (4); hereinafter the same applies in this item); hereinafter the same applies in this item and paragraph (3), item (ii)): measures to conclude a Basic Contract for the Implementation of Dispute Resolution Procedures in connection with Specified Investment Advisory and Agency Services with a single Designated Investment Advisory and Agency Services Dispute Resolution Organization;

(b) if there is no Designated Investment Advisory and Agency Services Dispute Resolution Organization: complaint processing measures and dispute resolution measures in connection with Specified Investment

- Advisory and Agency Services;
- (iv) if the Financial Services Provider, etc. engages in Investment Management: the measures specified in the relevant of the following sub-items (a) and (b) for the category of cases set forth in each sub-item:
    - (a) if there is a Designated Investment Management Dispute Resolution Organization (meaning a Designated Dispute Resolution Organization for which the Category of Dispute Resolution Services is Specified Investment Management (meaning Specified Investment Management as defined in Article 156-38, paragraph (5); hereinafter the same applies in this item); hereinafter the same applies in this item and paragraph (3), item (ii)): measures to conclude a Basic Contract for the Implementation of Dispute Resolution Procedures in connection with Specified Investment Management with a single Designated Investment Management Dispute Resolution Organization;
    - (b) if there is no Designated Investment Management Dispute Resolution Organization: complaint processing measures and dispute resolution measures in connection with Specified Investment Management;
  - (v) if the Financial Services Provider, etc. is a registered financial institution: the measures specified in the relevant of the following sub-items (a) and (b) for the category of cases set forth in said sub-item:
    - (a) if there is a Designated Dispute Resolution Organization for registered financial institutions (meaning a Designated Dispute Resolution Organization for which the Category of Dispute Resolution Services is the Specified Services of a Registered Financial Institution (meaning Specified Services of a Registered Financial Institution as defined in Article 156-38, paragraph (6); hereinafter the same applies in this item); hereinafter the same applies in this item and paragraph (3), item (ii)): measures to conclude a Basic Contract for the Implementation of Dispute Resolution Procedures in connection with the Specified Services of a Registered Financial Institution with a single Designated Dispute Resolution Organization for registered financial institutions;
    - (b) if there is no Designated Registered Financial Institutions Dispute Resolution Organization: complaint processing measures and dispute resolution measures in connection with the Specified Services of a Registered Financial Institution.
- (2) Once a Financial Services Provider has taken measures to conclude a Basic Contract for the Implementation of Dispute Resolution Procedures pursuant to the provisions of the preceding paragraph, it must disclose the trade name or name of the Designated Dispute Resolution Organization that is the counterparty to the Basic Contract for the Implementation of Dispute Resolution Procedures.

- (3) The provisions of paragraph (1) do not apply during the period specified in the relevant of the following items for the category of cases set forth in each item:
- (i) if a case that fell under a category of cases set forth in paragraph (1), item (i), sub-item (a); item (ii), sub-item (a); item (iii), sub-item (a); item (iv), sub-item (a); or item (v), sub-item (a); has come to fall under a category of cases set forth in item (i), sub-item (b); item (ii), sub-item (b); item (iii), sub-item (b); item (iv), sub-item (b); or item (v), sub-item (b) of that paragraph: the period specified by the Prime Minister as the period needed for taking the measures specified in paragraph (1), item (i), sub-item (b); item (ii), sub-item (b); item (iii), sub-item (b); item (iv), sub-item (b); or item (v), sub-item (b); at the time of granting authorization for the discontinuation of Dispute Resolution Services under Article 156-60, paragraph (1) or at the time of rescinding the designation under Article 156-61, paragraph (1);
  - (ii) if a case formerly fell under a category of cases set forth in paragraph (1), item (i), sub-item (a); item (ii), sub-item (a); item (iii), sub-item (a); item (iv), sub-item (a); or item (v), sub-item (a); but the discontinuation of the Dispute Resolution Services of a single Designated Type I Dispute Resolution Organization under item (i), sub-item (a) of that paragraph; a single Designated Type II Dispute Resolution Organization under item (ii), sub-item (a) of that paragraph; a single Designated Investment Advisory and Agency Services Dispute Resolution Organization under item (iii), sub-item (a) of that paragraph; a single Designated Investment Management Dispute Resolution Organization under item (iv), sub-item (a) of that paragraph; or a single Designated Dispute Resolution Organization for registered financial institutions (hereinafter collectively referred to as the "Designated Dispute Resolution Organization for Each Category of Business" in this item) has been authorized under Article 156-60, paragraph (1) or the designation under Article 156-39, paragraph (1) has been rescinded for the Designated Dispute Resolution Organization for Each Category of Business pursuant to Article 156-61, paragraph (1) (excluding in a case set forth in the preceding item): the period specified by the Prime Minister as the period needed for taking the measures specified in paragraph (1), item (i), sub-item (a); item (ii), sub-item (a); item (iii), sub-item (a); item (iv), sub-item (a); or item (v), sub-item (a); at the time of granting such authorization or at the time of rescinding the designation; and
  - (iii) if a case formerly fell under a category of cases set forth in paragraph (1), item (i), sub-item (b); item (ii), sub-item (b); item (iii), sub-item (b); item (iv), sub-item (b); or item (v), sub-item (b); but come to fall under the cases set forth in item (i), sub-item (a); item (ii), sub-item (a); item (iii), sub-item (a); item (iv), sub-item (a); or item (v), sub-item (a) of that paragraph: the period specified by the Prime Minister as the period needed for taking the measures

specified in paragraph (1), item (i), sub-item (a); item (ii), sub-item (a); item (iii), sub-item (a); item (iv), sub-item (a); or item (v), sub-item (a) at the time of the designation under Article 156-39, paragraph (1).

(Prohibited Acts)

Article 38 It is prohibited for a Financial Services Provider, etc. or the officer or employee thereof to engage in any of the following acts; provided, however, that this excludes acts set forth in items (iv) to (vi) inclusive that are specified by Cabinet Office Ordinance as being unlikely to result in insufficient investor protection, harm the fairness of transactions, or cause a loss of confidence in the Financial Instruments Business:

- (i) providing a customer with false information in connection with the conclusion of a Financial Instruments Transaction Contract or in connection with the solicitation thereof;
- (ii) providing a customer with a conclusive assessment of a matter that is uncertain or with information that could mislead the customer into believing that a matter that is uncertain is actually certain, thereby soliciting the customer to conclude a Financial Instruments Transaction Contract;
- (iii) supplying a customer with a Credit Rating that has been determined by a person engaged in Credit Rating Services other than a Credit Rating Agency (excluding a Credit Rating specified by Cabinet Office Ordinance as one that is found to have little likelihood of resulting in insufficient investor protection), without informing the customer that the person giving the Credit Rating is not registered as referred to in Article 66-27 and without informing the customer of the matters specified by Cabinet Office Ordinance, including the significance of such a registration and any other matters, thereby soliciting the customer to conclude a Financial Instruments Transaction Contract;
- (iv) visiting or telephoning a customer that is not asking to be solicited for the conclusion of a Financial Instruments Transaction Contract (limited to one that is specified by Cabinet Order in consideration of the content of the Financial Instruments Transaction Contract and other circumstances, as a contract in connection with which it is particularly necessary to ensure the protection of investors), and soliciting such a customer to conclude a Financial Instruments Transaction Contract;
- (v) soliciting a customer to conclude a Financial Instruments Transaction Contract (limited to one that is specified by Cabinet Order in consideration of the contents of the Financial Instruments Transaction Contract and other circumstances, as a contract in connection with which it is necessary to ensure the protection of investors) without obtaining confirmation from the customer, prior to solicitation, regarding whether or not the customer is

- willing to be solicited;
- (vi) continuing to solicit a customer to conclude a Financial Instruments Transaction Contract (limited one that is specified by Cabinet Order in consideration of the content of the Financial Instruments Transaction Contract and other circumstances, as a contract in connection with which it is necessary to ensure the protection of investors) despite the customer having manifested an intention that indicates an unwillingness to conclude such a Financial Instruments Transaction Contract (including the an intention that indicates a wish not to continue to be solicited) after being solicited; and
  - (vii) acts other than what is set forth in the preceding items, which are specified by Cabinet Office Ordinance as acts that result in insufficient investor protection, harm the fairness of transactions, or cause a loss of confidence in the Financial Instruments Business.

Article 38-2 A Financial Services Provider, etc. must not engage in any of the following acts in connection with the Investment Advisory and Agency Services or Investment Management it conducts:

- (i) using fraudulent means, committing assault, or using intimidation in connection with the conclusion or cancellation of an Investment Advisory Contract, Discretionary Investment Contract, or contract specified in Article 2, paragraph (8), item (xii), sub-item (b); and
- (ii) promising a customer, at the time of solicitation, that any loss that may arise will be compensated in whole or in part.

(Prohibition on Compensation of Loss)

Article 39 (1) A Financial Services Provider, etc. must not engage in any of the following acts:

- (i) making an offer or promise, or having a third party make an offer or promise, in connection with a purchase and sale or other transaction of Securities (excluding a purchase and sale with a repurchase requirement and a predetermined repurchase price, and other transactions specified by Cabinet Order) or a Derivatives Transaction (hereinafter collectively referred to as a "Purchase and Sale or Other Transaction of Securities, etc." in this Article), to a customer or to a person designated by the customer, that in the event that the customer (if a Trust Company, etc. (meaning a trust company or a financial institution that has obtained the authorization referred to in Article 1, paragraph (1) of the Act on Engagement in Trust Business by a Financial Institution; the same applies hereinafter) conducts the purchase and sale of Securities or a Derivatives Transaction on the account of a person that establishes a trust based a trust contract, this includes the person that

establishes the trust; hereinafter the same applies in this Article) incurs a loss from the Securities or Derivatives Transaction (hereinafter collectively referred to as "Securities, etc." in this Article), or in the event that a predetermined amount of profit does not accrue from those Securities, etc., the Financial Services Provider, etc. or a third party will cover the whole or part of the loss or provide the customer or a third party with an economic benefit to supplement its profits;

- (ii) making an offer or promise, or having a third party make an offer or promise, in connection with a Purchase and Sale or Other Transaction of Securities, etc., to a customer or to a person designated by the customer, that the Financial Services Provider, etc. or a third party will cover the whole or part of a loss that the customer has incurred in connection with the relevant Securities, etc., or will add to the profits that the customer has accrued in connection with those Securities, etc.; and
  - (iii) providing an economic benefit to a customer or third party, or having a third party provide an economic benefit to a customer or third party, in connection with a Purchase and Sale or Other Transaction of Securities, etc., in order to cover the whole or part of a loss that the customer has incurred in connection with the relevant Securities, etc., or in order to add to the profit that the customer has accrued in connection with those Securities, etc.
- (2) The customer of a Financial Services Provider, etc. must not engage in any of the following acts:
- (i) being party to, or having a third party be party to, the promise referred to in item (i) of the preceding paragraph (but only if that promise is based on a request that the customer makes personally or has a third party make), with the Financial Services Provider, etc. or a third party, in connection with a Purchase and Sale or Other Transaction of Securities, etc.;
  - (ii) being party to, or having a third party be party to, the promise referred to in item (ii) of the preceding paragraph (but only if that promise is based on a request that the customer makes personally or has a third party make), with the Financial Services Provider, etc. or a third party in connection with a Purchase and Sale or Other Transaction of Securities, etc.; and
  - (iii) receiving an economic benefit that is provided as referred to in item (iii) of the preceding paragraph or having a third party receive such an economic benefit (but only if this is based on a promise referred to in one of the preceding two items, if that promise is based on a request that the customer makes personally or has a third party make, and if the economic benefit is provided based on a request that the customer makes personally or has a third party make) from a Financial Services Provider, etc. or a third party, in connection with a Purchase and Sale or Other Transaction of Securities, etc.
- (3) The provisions of paragraph (1) do not apply if the offer, promise, or provision

of an economic benefit as referred to in the items of that paragraph is done in order to cover the whole or a part of a loss incurred due to problematic conduct (meaning illegal or wrongful conduct by a Financial Services Provider, etc. or its officer or employee, which is specified by Cabinet Office Ordinance as a potential cause of a dispute between a Financial Services Provider, etc. and its customer; hereinafter the same applies in this and the following Sections); provided, however, that with regard to the offer or promise referred to in item (ii) of that paragraph or the provision of an economic benefit as referred to in item (iii) of that paragraph, this only applies if the Financial Services Provider, etc. receives confirmation from the Prime Minister in advance that the loss to be covered was incurred due to problematic conduct, or in a case that is otherwise specified by Cabinet Office Ordinance.

- (4) The provisions of paragraph (2) do not apply if the promise referred to in item (i) or (ii) of that paragraph is a promise to cover the whole or part of a loss incurred due to problematic conduct, or if the economic benefit referred to in item (iii) of that paragraph is provided in order to cover the whole or part of a loss incurred due to problematic conduct.
- (5) A person seeking to receive the confirmation referred to in the proviso to paragraph (3) must submit a written application stating the fact regarding which confirmation is sought and other particulars specified by Cabinet Office Ordinance to the Prime Minister pursuant to the provisions of Cabinet Office Ordinance, accompanied by a document specified by Cabinet Office Ordinance as being necessary for proving the relevant fact.

(The Principle of Suitability)

Article 40 A Financial Services Provider, etc. shall conduct its business in such a manner that the state of its business operations does not fall under one of the following items:

- (i) its issuance of a solicitation in connection with an act that constitutes a Financial Instruments transaction which is found to be inappropriate in light of customer knowledge, customer experience, the state of customer assets, or the purpose for which a Financial Instruments Transaction Contract is concluded, results in or is likely to result in insufficient investor protection; and
- (ii) beyond what is set forth in the preceding item, the state of business operations is such that the Financial Services Provider, etc. is found not to have taken measures to ensure the appropriate handling of customer information it has obtained in the course of the business, or business operations are otherwise in a state specified by Cabinet Office Ordinance as one that is contrary to the public interest or that is likely to compromise the protection of investors.

(Best Execution Policy)

Article 40-2 (1) A Financial Services Provider, etc., pursuant to the provisions of Cabinet Order, must establish a policy and method for executing orders from customers for the purchase and sale of Securities and Derivatives Transactions (excluding those specified by Cabinet Order; hereinafter referred to as "Transactions of Securities, etc." in this Article) under the best terms and conditions (hereinafter referred to as the "Best Execution Policy, etc." in this Article).

(2) A Financial Services Provider, etc. must disclose its Best Execution Policy, etc. pursuant to the provisions of Cabinet Office Ordinance.

(3) A Financial Services Provider, etc. must execute orders for Transactions of Securities, etc. in accordance with its Best Execution Policy, etc.

(4) Before accepting an order from a customer for a purchase and sale of Securities listed on a Financial Instruments Exchange, purchase and sale of Over-the-Counter Traded Securities, or other transaction specified by Cabinet Order, a Financial Services Provider, etc., pursuant to the provisions of Cabinet Office Ordinance, must deliver a document to the customer stating its Best Execution Policy, etc. for the relevant transaction; provided, however, that this does not apply if it has already delivered such a document (or a document stating the revised policy, if its Best Execution Policy, etc. has been revised).

(5) If a Financial Services Provider, etc. is so requested by a customer within a period specified by Cabinet Office Ordinance after executing the customer's order for a Transaction of Securities, etc., it must deliver a document to the customer, pursuant to the provisions of Cabinet Office Ordinance, which explains, pursuant to the provisions of Cabinet Office Ordinance, that the order has been executed in accordance with its Best Execution Policy, etc.

(6) The provisions of Article 34-2, paragraph (4) apply mutatis mutandis to the delivery of a document under the preceding two paragraphs.

(Prohibition of Purchase and Sale, etc. If Separate Management Is Not Ensured)

Article 40-3 With regard to the rights set forth in Article 2, paragraph (2), item (v) or (vi) or the Securities set forth in Article 2, paragraph (1), item (xxi) (limited to those specified by Cabinet Order) or the rights set forth in Article 2, paragraph (2), item (vii) (limited to those specified by Cabinet Order), a Financial Services Provider, etc. must not perform any of the acts set forth in Article 2, paragraph (8), item (i), (ii), or (vii) to (ix) inclusive unless the relevant right or Securities are specified by Cabinet Office Ordinance as those for which a contract or other juridical act involving the right or Securities

ensures that the money invested or contributed for the right or Securities (including anything specified by Cabinet Order as being similar to money; hereinafter the same applies in this Article) is managed separately from the assets that belong to the person conducting the relevant business conducts by allocating such money, and is managed separately from any other assets connected with other business conducted by that person.

(Restrictions on the Sale and Purchase, etc. of Securities for Professional Investors)

Article 40-4 A Financial Services Provider, etc. must not perform any of the acts set forth in Article 2, paragraph (8), items (i) to (iv) inclusive and (x) in connection with the Securities for Professional Investors with a general investor (meaning a person other than a Professional Investor, etc. or Issuer of Securities for Professional Investors, or any other person specified by Cabinet Office Ordinance; hereinafter the same applies in this Article); provided, however, that this does not apply in a Case In Which Disclosure Has Been Made (meaning a Case In Which Disclosure Has Been Made as prescribed in Article 4, paragraph (7); the same applies in Article 40-5, paragraph (1) and Article 66-14-2) with regard to the relevant Securities for Professional Investors, nor does it apply in a case in which the Financial Services Provider, etc. intermediates a sale for the general investor without having solicited the general investors, nor does it in any case specified by Cabinet Office Ordinance as one in which there is little likelihood of this resulting in insufficient investor protection.

(Obligation to Notify in Connection with Securities for Professional Investors)

Article 40-5 (1) If a Financial Services Provider, etc. sells Securities for Professional Investors in a case not falling under the category of a Case In Which Disclosure Has Been Made, or performs any other act specified by Cabinet Order in connection with such Securities, without issuing a Solicitation of Offers to Acquire or an Offer to Sell, etc., it must notify the other party to the sale or other act, pursuant to the provisions of Cabinet Office Ordinance and with regard to the Securities for Professional Investors, that the case does not fall under the category of a Case In Which Disclosure Has Been Made, as well as notifying the other party of any other matters that are specified by Cabinet Office Ordinance.

(2) The first time that a Financial Services Provider, etc. receives an offer from a Professional Investor, etc. (excluding a person set forth in Article 2, paragraph (31), items (i) to (iii) inclusive) for a contract for transactions in Securities for Professional Investors (meaning a contract for performing an act set forth in Article 2, paragraph (8), item (i) to (iv) inclusive, or item (x) in connection with

Securities for Professional Investors (excluding a contract for effecting a sale and purchase of Securities for Professional Investors through an act set forth in item (x) of that paragraph (this is limited to a sale and purchase effected through the intermediation, brokerage, or agency of the Financial Services Provider that effects the relevant act) or any other contract that is specified by Cabinet Office Ordinance in consideration of the contents of the contract and the characteristics of the counterparty); hereinafter the same applies in this paragraph), it must notify the Professional Investor, etc. of the following matters and deliver a document to the Professional Investor, etc. that states those matters, before it concludes the contract for transactions in Securities for Professional Investors to which the offer pertains:

- (i) the contents of the information provided in connection with the Securities for Professional Investors, the nature of the transaction, and any other matters specified by Cabinet Office Ordinance as material matters of which an investor must be made aware in connection with Securities for Professional Investors; and
  - (ii) an indication of the risk of insufficient protection involved, if a transaction of Securities for Professional Investors will be conducted by a person whose knowledge or experience, or the state of whose assets, makes it inappropriate for the person to do so;
- (3) The provisions of Article 34-2, paragraph (4) apply mutatis mutandis to the delivery of the documents set forth in the preceding paragraph.

## **Subsection 2 Special Provisions on Investment Advisory Services**

(Duty to Customers)

- Article 41 (1) A Financial Services Provider, etc. must work faithfully on behalf of its customers in providing its Investment Advisory Services.
- (2) A Financial Services Provider, etc. must provide its Investment Advisory Services with the due care of a prudent manager toward its customers.

(Prohibited Acts)

- Article 41-2 A Financial Services Provider, etc. must not perform any of the following acts in connection with the Investment Advisory Services it conducts:
- (i) advising customers to conduct a transaction between or among themselves that would be detrimental to a particular customer's interests in the interest of another customer;
  - (ii) giving advice regarding a particular Financial Instrument, Financial Indicator, or Option for which there is no justifiable basis, with the aim of using fluctuations in the price, indicator, figure, or amount receivable based on a customer's transaction, to benefit itself or a third party other than that

- customer;
- (iii) advising a customer to conduct a transaction under terms and conditions that are different from the ordinary terms and conditions and detrimental to the customer's interests (other than as is specified in item (i) above);
  - (iv) making a purchase and sale or other transaction of Securities, or a Derivatives Transaction (hereinafter referred to as "Purchase and Sale or Other Transaction of Securities, etc."), on its own account, using information from a transaction conducted by a customer that has received its advice;
  - (v) providing an economic benefit to a customer or a third party or having a third party provide an economic benefit to a customer, in order to cover the whole or part of a loss incurred by the customer due to a transaction about which the customer has received its advice, or in order to add to the profit that a customer has accrued in connection with a transaction about which the customer has received its advice (unless this is to cover the whole or part of a loss incurred due to problematic conduct); and
  - (vi) beyond what is set forth in the preceding items, any act specified by Cabinet Office Ordinance as resulting in insufficient investor protection, harming the fairness of transactions, or causing a loss of confidence in the Financial Instruments Business.

(Prohibition on the Purchase and Sale of Securities, etc.)

Article 41-3 A Financial Services Provider, etc. must not perform any of the acts set forth in Article 2, paragraph (8), items (i) to (iv) inclusive, in connection with the Investment Advisory Services it conducts, with a customer as the counterparty or on behalf of a customer; provided, however, that this does not apply if it does so as Type I Financial Instruments Business, or if it does so in a case that is specified by Cabinet Order.

(Prohibition on Receiving Deposits of Money or Securities)

Article 41-4 A Financial Services Provider, etc. must not, for any reason, receive a deposit of money or Securities from a customer, or have a person specified by Cabinet Order as being closely related to the Financial Services Provider, etc. deposit a customer's money or Securities, in connection with the Investment Advisory Services it conducts, unless it does so as Securities, etc. Management, or unless it does so in a case that is specified by Cabinet Order.

(Prohibition on the Lending, etc. of Money or Securities)

Article 41-5 A Financial Services Provider, etc. must not lend money or Securities to a customer or perform intermediation, brokerage, or agency for a third party's lending of money or Securities to a customer in connection with the Investment Advisory Services it conducts; provided, however, that this does

not apply if a Financial Services Provider lends money or Securities to a customer in the course of a margin transaction prescribed in Article 156-24, paragraph (1), or if it performs one of such acts in a case that is specified by Cabinet Order.

### **Subsection 3 Special Provisions on Investment Management**

#### **(Duty to Rights Holders)**

Article 42 (1) A Financial Services Provider, etc. must work faithfully on behalf of rights holders (meaning persons prescribed in the relevant of the following items for the category of business set forth in each item; hereinafter the same applies in this Subsection) in providing Investment Management:

- (i) the business of performing the act specified in Article 2, paragraph (8), item (xii): the other party to the contract set forth in sub-item (a) or (b) of that item;
  - (ii) the business of performing the act specified in Article 2, paragraph (8), item (xiv): the person that holds the rights indicated on the Securities provided for in that item or other rights specified by Cabinet Order; and
  - (iii) the business of performing the act specified in Article 2, paragraph (8), item (xv): the person that holds rights set forth in sub-items (a) to (c) inclusive of that item or other rights specified by Cabinet Order as prescribed in that item.
- (2) A Financial Services Provider, etc. must provide Investment Management with the due care of a prudent manager toward rights holders.

#### **(Prohibited Acts)**

Article 42-2 A Financial Services Provider, etc. must not perform any of the following acts in connection with the Investment Management Business it conducts; provided, however, that this excludes acts set forth in items (i) and (ii) below that are specified by Cabinet Office Ordinance as being unlikely to result in insufficient investor protection, harm the fairness of transactions, or cause a loss of confidence in the Financial Instruments Business:

- (i) making an investment that involves a transaction being conducted with the Financial Services Provider, etc. or a director or executive officer thereof;
- (ii) making an investment that involves a transaction being conducted between or among invested assets;
- (iii) making an investment in a particular Financial Instrument, Financial Indicator, or Option, which involves a transaction being conducted for which there is no justifiable basis, with the aim of using fluctuations in the price, indicator, figure, or amount receivable based on the transaction, to benefit itself or a third party other than the rights holder;

- (iv) making an investment that involves a transaction being conducted under terms and conditions that are different from the ordinary terms and conditions, and that are detrimental to the rights holder's interests;
- (v) making a Purchase and Sale or Other Transaction of Securities, etc. on its own account using information about a transaction that it has conducted as an investment;
- (vi) providing an economic benefit to a rights holder or a third party or having a third party provide an economic benefit to a rights holder or third party, in order to cover the whole or part of a loss that a rights holder has incurred due to a transaction conducted as an investment of invested assets, or in order to add to the profit that a rights holder has accrued from a transaction conducted as an investment of invested assets (unless this is done to cover the whole or part of a loss incurred due to problematic conduct); and
- (vii) beyond what is set forth in the preceding items, any act specified by Cabinet Office Ordinance as resulting in insufficient investor protection, harming the fairness of transactions, or causing a loss of confidence in the Financial Instruments Business.

(Entrustment of Authority to Invest)

Article 42-3 (1) A Financial Services Provider, etc. may entrust the whole or part of the authority to make investments on behalf of a rights holder to another Financial Services Provider, etc. (limited to one does Investment Management) or other person specified by Cabinet Order, but only if the matters specified by Cabinet Office Ordinance are stipulated in a contract or other juridical act set forth in one of the following items:

- (i) the contract set forth in Article 2, paragraph (8), item (xii), sub-item (a) or (b);
  - (ii) a contract concerning the rights indicated on Securities or other rights specified by Cabinet Order as prescribed in Article 2, paragraph (8), item (xiv); and
  - (iii) a contract or other juridical act concerning the rights set forth in Article 2, paragraph (8), item (xv), sub-items (a) to (c) inclusive or other rights specified by Cabinet Order as prescribed in that item.
- (2) Notwithstanding the provisions of the preceding paragraph, a Financial Services Provider, etc. must not entrust the whole of the authority to invest all invested assets to the person specified by Cabinet Order that is referred to in that paragraph.
- (3) With regard to the application of the provisions of Article 42, paragraph (1) if a Financial Services Provider, etc. effected an entrustment pursuant to paragraph (1), in Article 42, paragraph (1), the phrase "Financial Services Provider, etc." is deemed to be replaced with "Financial Services Provider, etc."

(including a person specified by Cabinet Order that is referred to in Article 42-3, paragraph (1) and that has been entrusted by the relevant Financial Services Provider, etc. pursuant to that paragraph; the same applies in the following paragraph and the following Article)".

(Separate Management)

Article 42-4 A Financial Services Provider, etc. must manage invested assets separately from its own assets and other invested assets, pursuant to the provisions of Cabinet Office Ordinance, in connection with the Investment Management (limited to the business of performing the act specified in Article 2, paragraph (8), item (xv)) it conducts.

(Prohibition on Receiving Deposits of Money or Securities)

Article 42-5 A Financial Services Provider, etc. must not, for any reason, receive a deposit of money or Securities from a customer, or have a person specified by Cabinet Order as being closely related to the Financial Services Provider, etc. deposit a customer's money or Securities, in connection with the Investment Management it conducts (limited to the business of performing the acts specified in Article 2, paragraph (8), item (xii); hereinafter the same applies in this and the following Articles), unless it does so as Securities, etc. Management, or unless it does so in a case that is specified by Cabinet Order; provided, however, that this does not apply if the Financial Services Provider, etc. performs one of the acts set forth in Article 2, paragraph (8), items (i) to (iv) inclusive in connection with its Investment Management on behalf of a customer, and such a deposit is necessary for the settlement of the transaction conducted through such an act.

(Prohibition on the Lending of Money or Securities)

Article 42-6 A Financial Services Provider, etc. must not lend money or Securities to a customer or perform intermediation, brokerage, or agency for a third party's lending of money or Securities to a customer in connection with the Investment Management it conducts; provided, however, that this does not apply if a Financial Services Provider lends money or Securities to a customer in the course of a margin transaction prescribed in Article 156-24, paragraph (1), or if it performs one of these acts in a case that is specified by Cabinet Order.

(Delivery of an Investment Report)

Article 42-7 (1) A Financial Services Provider, etc., pursuant to the provisions of Cabinet Office Ordinance, must periodically prepare an investment report for invested assets and deliver it to any known rights holders affiliated with those

invested assets; provided, however, that this does not apply in the cases specified by Cabinet Office Ordinance as those in which, even if no investment report is delivered to such rights holders, this will not compromise the protection of the rights holders.

(2) The provisions of Article 34-2, paragraph (4) apply mutatis mutandis to the delivery of an investment report under the preceding paragraph.

(3) When a Financial Services Provider, etc. has prepared an investment report set forth in paragraph (1) in connection with the Investment Management it conducts (limited to the business of performing the act specified in Article 2, paragraph (8), item (xv)), it shall notify the Prime Minister of this without delay; provided, however, that this does not apply if the number of rights holders to a set of invested assets is below the number specified by Cabinet Order, nor does it apply in the cases specified by Cabinet Office Ordinance as those in which its not doing so does not compromise the protection of investors.

(Exclusion from Application of the Trust Business Act)

Article 42-8 The provisions of Chapter IV of the Trust Business Act do not apply if a Financial Services Provider, etc. engages in Investment Management.

#### **Subsection 4 Special Provisions on Securities, etc. Management**

(Duty of Due Care of a Prudent Manager)

Article 43 A Financial Services Provider, etc. must engage in Securities, etc. Management with the due care of a prudent manager toward its customers.

(Separate Management)

Article 43-2 (1) A Financial Services Provider, etc. must manage the following Securities (excluding the Securities to be managed under the following paragraph) in the way specified by Cabinet Office Ordinance as a reliable and orderly way of managing property, and must do so separately from its own property:

(i) the Securities that a customer deposits with the Financial Services Provider, etc. pursuant Article 119 (limited to those deposited in connection with Transactions of Securities-Related Derivatives) or Securities that a customer deposits with the Financial Services Provider, etc. pursuant to Article 161-2; and

(ii) the Securities in the possession of the Financial Services Provider, etc. on the account of a customer or Securities that a customer has deposited with the Financial Services Provider, etc. (excluding Securities set forth in the preceding item, Securities that a Financial Services Provider, etc. may use pursuant to a contract, and Securities specified by Cabinet Order), in

connection with transactions involved in Securities Services or other services specified by Cabinet Office Ordinance as being incidental to Securities Services (excluding Over-the-Counter Derivatives Transactions (limited to transactions to be made with a Financial Services Provider that is engaged in Securities Services and is registered as referred to in Article 29 to engage in Type I Financial Instruments Business as the counterparty, and other transactions that are specified by Cabinet Office Ordinance in consideration of the characteristics of the counterparty to the transaction) and other transactions specified by Cabinet Order; hereinafter referred to as "Transactions Related to Subject Securities" in item (ii) of the following paragraph and Article 79-20).

- (2) As regards the money or Securities set forth in the following items, a Financial Services Provider, etc. must manage the amount of money calculated pursuant to the provisions of Cabinet Office Ordinance as the amount to be refunded to the customer in the event that said Financial Services Provider, etc. discontinues its Financial Instruments Business (including Services of a Registered Financial Institution; hereinafter the same applies in this paragraph) or otherwise ceases to operate in the Financial Instruments Business, separately from its own assets, and must establish a trust with a Trust Company, etc. in Japan, pursuant to the provisions of Cabinet Office Ordinance, for the purpose of managing the amount of money to be refunded to the customer in the event that said Financial Services Provider, etc. discontinues its Financial Instruments Business or otherwise ceases to operate in the Financial Instruments Business:
  - (i) money that a customer deposits with the Financial Services Provider, etc. (limited to money deposited in connection with Transactions of Securities-Related Derivatives) pursuant to Article 119, or money that a customer deposits with the Financial Services Provider, etc. pursuant to Article 161-2;
  - (ii) money on the account of a customer or money that a customer deposits with the Financial Services Provider, etc. (excluding the money set forth in the preceding item) in connection with a Transaction Related to Subject Securities; and
  - (iii) Securities set forth in the items of the preceding paragraph that have been furnished as security pursuant to Article 43-4, paragraph (1).
- (3) A Financial Services Provider, etc. must periodically undergo an audit by a certified public accountant (this includes a foreign certified public accountant as prescribed in Article 16-2, paragraph (5) of the Certified Public Accountants Act (Act No. 103 of 1948); the same applies in Article 193-2 and Article 193-3) or audit by an auditing firm, pursuant to the provisions of Cabinet Office Ordinance, as regards the management conditions under the preceding two paragraphs.

Article 43-3 (1) A Financial Services Provider, etc. must manage the money or Securities that a customer deposits pursuant to Article 119 and other security deposits and Securities in connection with the Derivatives Transactions, etc. it conducts (excluding those that fall under the category of Transactions of Securities-Related Derivatives, etc.; the same applies in the following paragraph), separately from its own property, pursuant to the provisions of Cabinet Office Ordinance.

(2) A Financial Services Provider, etc. must manage the money and other assets that are equivalent to the amount of Financial Instruments that are part of the customer's account in connection with the Derivatives Transactions, etc. it conducts, pursuant to the provisions of Cabinet Office Ordinance.

(Restriction on the Act of Furnishing a Customer's Securities as Collateral)

Article 43-4 (1) If a Financial Services Provider, etc. furnishes the Securities in its possession on a customer's account or Securities deposited with it by a customer as collateral, or lends such Securities to another person, it must obtain written consent from said customer pursuant to the provisions of Cabinet Office Ordinance.

(2) The provisions of Article 34-2, paragraph (12) apply mutatis mutandis to the written consent prescribed in the preceding paragraph.

### **Subsection 5 Preventive Measures against Adverse Effects**

(Prohibited Acts When Doing Business in Two or More Business Categories)

Article 44 If a Financial Services Provider, etc. or its officer or employee does business in two or more business categories (meaning business categories provided for in Article 29-2, paragraph (1), item (v)), the operator, etc., officer, or employee must not perform any of the following acts:

- (i) soliciting a customer to entrust, etc. it (meaning to request it to provide intermediation, brokerage, or agency; the same applies hereinafter) with a Purchase and Sale or Other Transaction of Securities, etc., using information about a Purchase and Sale or Other Transaction of Securities, etc. conducted by a customer that has received advice in connection with Investment Advisory Services or using information about a Purchase and Sale or Other Transaction of Securities, etc. conducted by such a customer as an investment in connection with Investment Management;
- (ii) giving advice in connection with the Investment Advisory Services it conducts, that would involve a transaction being conducted that is unnecessary in light of the transaction policy, the amount of the transaction, or the market conditions, or making an investment in connection with the

Investment Management it conducts, that involves a transaction being conducted that is unnecessary in light of the investment policy, the amount of invested assets, or the market conditions, with the aim of benefitting from business other than Investment Advisory Services and Investment Management; and

- (iii) any act other than what is set forth in the preceding two items, which is specified by Cabinet Office Ordinance as resulting in insufficient investor protection, harming the fairness of transactions, or causing a loss of confidence in the Financial Instruments Business.

(Prohibited Acts Involving Other Business)

Article 44-2 (1) If a Financial Services Provider, etc. or the officer or employee thereof does business other than in the Financial Instruments Business and services incidental thereto (hereinafter referred to as "Business Activities Other Than Those of a Financial Services Provider" in item (ii) and item (iii) below), the operator, etc., officer, or employee must not perform any of the following acts:

- (i) making its becoming entrusted, etc. with a purchase and sale of Securities (meaning causing a person to entrust, etc. it with such purchase and sale; hereinafter the same applies) conditional upon it lending money or otherwise granting credit to a person through a means other than a margin transaction prescribed in Article 156-24, paragraph (1) (excluding acts specified by Cabinet Office Ordinance as acts that are found to have little likelihood of resulting in insufficient investor protection);
  - (ii) giving advice in connection with the Investment Advisory Services it conducts, that would involve a transaction being conducted that is unnecessary in light of the transaction policy, the amount of the transaction, or the market conditions, or making an investment in connection with the Investment Management it conducts, that involves a transaction being conducted that is unnecessary in light of the investment policy, the amount of invested assets, or the market conditions, with the aim of benefitting from Business Activities Other Than Those of a Financial Services Provider; and
  - (iii) any act other than what is set forth in the preceding two items, which is set forth in the items of Article 2, paragraph (8), which is performed in connection with Business Activities Other Than Those of a Financial Services Provider, and which is specified by Cabinet Office Ordinance as resulting in insufficient investor protection, harming the fairness of transactions, or causing a loss of confidence in the Financial Instruments Transaction Business.
- (2) If a registered financial institution or its officer or employee does business other than engaging in the services of a registered financial institution

(referred to as "Business Activities Other Than Those of a Registered Financial Institution" in item (ii) and item (iii) below), the institution, officer, or employee must not perform any of the following acts:

- (i) making its becoming entrusted, etc. with a purchase and sale of Securities, conditional on it lending money or otherwise granting credit to a person (excluding acts specified by Cabinet Office Ordinance as acts that are found to have little likelihood of resulting in insufficient investor protection);
- (ii) giving advice in connection with the Investment Advisory Services it conducts, that would involve a transaction being conducted that is unnecessary in light of the transaction policy, the amount of the transaction, or the market conditions, or making an investment in connection with the Investment Management it conducts, that involves a transaction being conducted that is unnecessary in light of the investment policy, the amount of invested assets, or the market conditions, with the aim of benefitting from Business Activities Other Than Those of a Registered Financial Institution; and
- (iii) any act other than what is set forth in the preceding two items, which is performed in connection with Business Activities Other Than Those of a Registered Financial Institution and which is specified by Cabinet Office Ordinance as resulting in insufficient investor protection, harming the fairness of transactions, or causing a loss of confidence in the Financial Instruments Business.

(Restriction on Acts Involving Parent Corporations, etc. or Subsidiary Corporations, etc.)

Article 44-3 (1) It is prohibited for a Financial Services Provider, etc. or its officer or employee to perform any of the following acts; provided, however, that this does not apply if the approval of the Prime Minister is obtained for the relevant act as one that is found not to compromise the public interest or the protection of investors:

- (i) conducting a purchase and sale or other transaction of Securities or an Over-the-Counter Derivatives Transaction with the Parent Corporation, etc. or Subsidiary Corporation, etc. of the Financial Services Provider, etc., under terms and conditions that are different from ordinary terms and conditions and that are likely to be detrimental to the fairness of transactions;
- (ii) concluding a contract with a customer for any of the acts set forth in the items of Article 2, paragraph (8), knowing that the Parent Corporation, etc. or Subsidiary Corporation, etc. of the Financial Services Provider, etc. has granted credit to the customer on the condition that said contract be concluded with the Financial Services Provider, etc.;
- (iii) giving advice in connection with the Investment Advisory Services it

- conducts, that would involve a transaction being conducted that is unnecessary in light of the transaction policy, the amount of the transaction, or the market conditions, or making an investment in connection with the Investment Management it conducts, that involves a transaction being conducted that is unnecessary in light of the investment policy, the amount of invested assets, or the market conditions, with the aim of benefitting the Parent Corporation, etc. or Subsidiary Corporation, etc. of the Financial Services Provider, etc.; and
- (iv) any act other than what is set forth in the preceding three items, which involves the Parent Corporation, etc. or Subsidiary Corporation, etc. of the Financial Services Provider, etc. and which is specified by Cabinet Office Ordinance as being likely to compromise the protection of investors, harm the fairness of transactions, or cause a loss of confidence in the Financial Instruments Business.
- (2) It is prohibited for a registered financial institution or its officer or employee to perform any of the following acts; provided, however, that this does not apply if the approval of the Prime Minister is obtained for the relevant act as one that is found not to compromise the public interest or the protection of investors:
- (i) conducting a purchase and sale or other transaction of Securities or an Over-the-Counter Derivatives Transaction with the Parent Corporation, etc. or Subsidiary Corporation, etc. of the registered financial institution, under terms and conditions that are different from ordinary terms and conditions and that are likely to be detrimental to the fairness of transactions;
- (ii) performing the act specified in Article 33, paragraph (2), item (iv), sub-item (b) with a customer, while granting credit to the customer on the condition that a contract for any of the acts set forth in the items of Article 2, paragraph (8) be concluded with the Parent Corporation, etc. or Subsidiary Corporation, etc. of the registered financial institution;
- (iii) giving advice in connection with the Investment Advisory Services it conducts, that would involve a transaction being conducted that is unnecessary in light of the transaction policy, the amount of the transaction, or the market conditions, or making an investment in connection with the Investment Management it conducts, that involves a transaction being conducted that is unnecessary in light of the investment policy, the amount of invested assets, or the market conditions, with the aim of benefitting the Parent Corporation, etc. or Subsidiary Corporation, etc. of the registered financial institution; and
- (iv) any act other than what is set forth in the preceding three items, which involves the Parent Corporation, etc. or Subsidiary Corporation, etc. of the registered financial institution and which is specified by Cabinet Office

Ordinance as being likely to compromise the protection of investors, harm the fairness of transactions, or cause a loss of confidence in the business of the registered financial institution.

(Restriction on Credit Granting by the Underwriter)

Article 44-4 If a Financial Services Provider that has become an Underwriter of Securities sells said Securities, it must not lend money or otherwise grant credit for the purchase price to the purchaser of the Securities until six months have elapsed since the day on which the Financial Services Provider became an Underwriter.

### **Subsection 6 Miscellaneous Provisions**

Article 45 The provisions set forth in each of the following items do not apply if the person specified in the relevant item is a Professional Investor; provided, however, that this does not apply to the cases specified by Cabinet Office Ordinance as those in which the public interest or the protection of Professional Investors could be compromised:

- (i) Article 37; Article 38, items (iv) to (vi) inclusive; and Article 40, item (i): the other party that the Financial Services Provider, etc. solicits to conclude a Financial Instruments Transaction Contract;
- (ii) Articles 37-2 to 37-6 inclusive; Article 40-2, paragraph (4); and Article 43-4: the other party to a Financial Instruments Transaction Contract for which a Financial Services Provider, etc. has received an offer or which a Financial Services Provider, etc. has concluded;
- (iii) Article 41-4 and Article 41-5: the other party to an Investment Advisory Contract concluded by a Financial Services Provider, etc.; and
- (iv) Articles 42-5 to 42-7 inclusive: the other party to a Discretionary Investment Contract concluded by a Financial Services Provider, etc.

### **Section 3 Accounting**

#### **Subsection 1 Financial Services Providers Engaged in Type I Financial Instruments Business**

(The Business Year)

Article 46 The business year of a Financial Services Provider (limited to one that is engaged in Type I Financial Instruments Business; hereinafter the same applies in this Subsection) is from April 1 to March 31 of the following year.

(Business Books and Documents)

Article 46-2 A Financial Services Provider shall prepare and archive its business

books and documents pursuant to the provisions of Cabinet Office Ordinance.

(Submission, etc. of Business Reports)

Article 46-3 (1) Each business year, pursuant to the provisions of Cabinet Office Ordinance, a Financial Services Provider shall prepare a business report and submit it to the Prime Minister within three months after the end of the business year.

(2) In addition to submitting a business report pursuant to the provisions of the preceding paragraph, a Financial Services Provider shall report the state of its business and assets to the Prime Minister pursuant to the provisions of Cabinet Office Ordinance.

(3) If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister, pursuant to the provisions of Cabinet Order, may order a Financial Services Provider to issue public notice of all or part of the business report referred to in paragraph (1).

(Public Inspection of Explanatory Documents)

Article 46-4 Each business year, a Financial Services Provider shall prepare explanatory documents stating the particulars specified by Cabinet Office Ordinance as pertinent to the state of its business and assets, and shall keep those explanatory documents at all of its business offices and offices and make them available for public inspection during the one-year period beginning from the day on which the period specified by Cabinet Order elapses following the end of each business year.

(Financial Instruments Transaction Liability Reserves)

Article 46-5 (1) A Financial Services Provider shall lay aside financial instruments transaction liability reserves, pursuant to the provisions of Cabinet Office Ordinance, in proportion to the transaction volume of the purchases and sales and other transactions of Securities and Derivatives Transactions, etc.

(2) The financial instruments transaction liability reserves referred to in the preceding paragraph must not be used other than when allocated to cover a loss that arises due to problematic conduct in connection with a purchase and sale or other transaction of Securities or a Derivatives Transaction, etc., or in cases otherwise specified by Cabinet Office Ordinance.

(Capital Adequacy Ratio)

Article 46-6 (1) A Financial Services Provider must calculate the ratio of the sum total of its stated capital, reserve funds, and other amounts specified by Cabinet Office Ordinance less the sum total of its fixed assets and any other

things specified by Cabinet Office Ordinance, to the sum total of the amount specified by Cabinet Office Ordinance as the amount for covering possible risks which may arise due to fluctuations in the prices of the Securities held or due to other reasons (hereinafter referred to as the "Capital Adequacy Ratio"), and notify the Prime Minister of this ratio at the end of each month and in the cases specified by Cabinet Office Ordinance.

- (2) A Financial Services Provider must not allow its Capital Adequacy Ratio to fall below 120 percent.
- (3) A Financial Services Provider shall prepare documents stating its Capital Adequacy Ratio as of the last day of March, June, September, and December every year, keep them at all of its business offices and offices, and make them available for public inspection for the three-month period starting from the day on which one month has elapsed since the last day of the relevant month.

### **Subsection 2 Financial Services Providers Not Engaged in Type I Financial Instruments Business**

(Business Books and Documents)

Article 47 A Financial Services Provider (other than one that is engaged in Type I Financial Instruments Business; hereinafter the same applies in this Subsection) shall prepare and archive its business books and documents pursuant to the provisions of Cabinet Office Ordinance.

(Submission of Business Reports)

Article 47-2 Each business year, pursuant to the provisions of Cabinet Office Ordinance, a Financial Services Provider shall prepare a business report and submit it to the Prime Minister within three months after the end of the business year.

(Public Inspection of Explanatory Documents)

Article 47-3 Each business year, pursuant to the provisions of Cabinet Office Ordinance, a Financial Services Provider shall prepare explanatory documents stating those of the particulars stated in the business report referred to in the preceding Article which are specified by Cabinet Office Ordinance as particulars that are found to be necessary in terms of investor protection, and shall keep them at all of its business offices and offices and make them available for public inspection during the one-year period beginning from the day on which the period specified by Cabinet Order elapses following the end of each business year.

### **Subsection 3 Registered Financial Institutions**

(Business Books and Documents)

Article 48 A registered financial institution shall prepare and archive its business books and documents pursuant to the provisions of Cabinet Office Ordinance.

(Submission, etc. of Business Reports)

Article 48-2 (1) Each business year, pursuant to the provisions of Cabinet Office Ordinance, a registered financial institution shall prepare a business report and submit it to the Prime Minister within three months after the end of the business year.

(2) In addition to submitting a business report pursuant to the provisions of the preceding paragraph, a registered financial institution shall report the state of its business and assets to the Prime Minister pursuant to the provisions of Cabinet Office Ordinance.

(3) If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister, pursuant to the provisions of Cabinet Order, may order a registered financial institution to give public notice of all or part of the business report under paragraph (1).

(Financial Instruments Transaction Liability Reserves)

Article 48-3 (1) A registered financial institution shall lay aside financial instruments transaction liability reserves, pursuant to the provisions of Cabinet Office Ordinance, in proportion to the transaction volume of the purchases and sales and other transactions of Securities and Derivatives Transactions, etc.

(2) The financial instruments transaction liability reserves referred to in the preceding paragraph must not be used other than when allocated to cover a loss that arises due to problematic conduct involving a purchase and sale or other transaction of Securities or a Derivatives Transaction, etc., or in cases otherwise specified by Cabinet Office Ordinance.

**Subsection 4 Special Provisions for Foreign Corporations, etc.**

(Exclusion from Application)

Article 49 The provisions of Article 46 do not apply if a Financial Services Provider is a foreign corporation.

(Special Provisions on the Submission of Business Reports)

Article 49-2 (1) With regard to the application of Article 46-3, paragraph (1) if a Financial Services Provider is a foreign corporation, in that paragraph, the

phrase "Each business year" is deemed to be replaced with "For each period from April 1 to March 31 of the following year" and the phrase "within three months after the end of the business year" is deemed to be replaced with "within the period specified by Cabinet Order after the period from April 1 to March 31 of the following year has elapsed".

- (2) With regard to the application of Article 46-4 if a Financial Services Provider is a foreign corporation, the term "Each business year" in that Article is deemed to be replaced with "For each period from April 1 to March 31 of the following year"; and the term "from the end of the business year" in that Article is deemed to be replaced with "after the end of that period."
- (3) With regard to the application of Article 46-6, paragraph (1) if a Financial Services Provider is a foreign corporation, in that paragraph, the term "stated capital" is deemed to be replaced with "brought-in capital" the term "reserve funds" is deemed to be replaced with "reserve funds laid aside in its business offices and offices in Japan", and the term "fixed assets" is deemed to be replaced with "fixed assets of its business offices and offices in Japan".
- (4) With regard to the application of Article 47-2 if a Financial Services Provider is a foreign corporation or an individual domiciled in a foreign state, and with regard to the application of Article 48-2, paragraph (1) if a registered financial institution is a foreign corporation, in those provisions, the phrase "within three months" is deemed to be replaced with "within the period specified by Cabinet Order".

(Submission of Other Documents)

Article 49-3 (1) Each business year, pursuant to the provisions of Cabinet Office Ordinance, a Financial Services Provider (but only a foreign corporation engaged in Type I Financial Instruments Business; hereinafter the same applies in this Subsection) shall submit a balance sheet, profit and loss statement, and other financial accounting documents prepared in connection with all of its business, as well as documents summarizing business in the relevant business year, to the Prime Minister within the period specified by Cabinet Order after the end of that business year.

- (2) In addition to submitting documents pursuant to the provisions of the preceding paragraph, a Financial Services Provider shall report the state of its business and assets to the Prime Minister pursuant to the provisions of Cabinet Office Ordinance.

(Reserves for Loss)

Article 49-4 (1) Until the amount of money specified by Cabinet Order as referred to in Article 29-4, paragraph (1), item (iv) is reached, a Financial Services Provider shall lay aside reserves for loss at its principal business

office or office in Japan, pursuant to the provisions of Cabinet Office Ordinance, in at least the amount arrived at by multiplying the amount of profit from the business conducted at all business offices and offices in Japan that it has established for the purpose of engaging in the Financial Instruments Business (hereinafter referred to as "All Business Offices and Offices" in the following paragraph and following Article), by the rate of no more than ten percent that is specified by Cabinet Office Ordinance.

- (2) The reserves for loss referred to in the preceding paragraph must not be used other than when allocated to cover a net loss linked to the business of All Business Offices and Offices of the Financial Services Provider, with the approval of the Prime Minister.

(Retention of Assets Within Japan)

Article 49-5 Pursuant to the provisions of Cabinet Office Ordinance, a Financial Services Provider must retain assets equivalent to the sum total of its financial instruments transaction liability reserves, reserves for loss, and the amount of liability on the accounts of All Business Offices and Offices as specified by Cabinet Order, in Japan.

#### **Section 4 Supervision**

(Notification of Suspension)

Article 50 (1) If a Financial Services Provider, etc. comes to fall under one of the following items, it must notify the Prime Minister of this without delay:

- (i) it suspends its business (limited to Financial Instruments Business or services of a registered financial institution (hereinafter referred to as "Financial Transaction Business, etc." in this Section) or resumes business (with regard to a Financial Services Provider that has obtained the authorization referred to in Article 30, paragraph (1), this includes if it suspends or resumes the business subject to said authorization);
- (ii) it discontinues business that was under the authorization referred to in Article 30, paragraph (1);
- (iii) the Financial Services Provider is a corporation, and that corporation merges with another corporation (excluding if the Financial Services Provider is a corporation and that corporation disappears in the merger), succeeds to all or part of another corporation's business undertakings (limited to those in the Financial Instruments Business, etc.; hereinafter the same applies in this item and the following Article) in a company split, or acquires all or part of another corporation's business;
- (iv) the Financial Services Provider (limited to one engaged in Securities Services; the same applies in the following item) acquires or comes to hold

- the majority of all shareholders', etc. voting rights in a bank, a Cooperative Financial Institution, or any other financial institution specified by Cabinet Order; in a corporation in a foreign state that engages in the same kind of business as that conducted by such persons; or in a Financial Services Provider (limited to a corporation), a foreign corporation that engages in Financial Instruments Business, or any other corporation specified by Cabinet Office Ordinance (collectively referred to as a "Bank, etc." in the following item and Article 56-2, paragraph (1));
- (v) the Financial Services Provider comes to no longer hold the majority of all shareholders', etc. voting rights in a Bank, etc. in which it used to hold the majority of all shareholders', etc. voting rights, or such Bank, etc. merges, is dissolved, or discontinues the whole of its business;
  - (vi) the majority of all shareholders', etc. voting rights in the Financial Services Provider (limited to one engaged in Type I Financial Instruments Business or Investment Management) has come to be held by another corporation or other organization;
  - (vii) it files a petition to commence bankruptcy proceedings, rehabilitation proceedings, or reorganization proceedings; or
  - (viii) it falls under any other case specified by Cabinet Office Ordinance.
- (2) Necessary particulars relevant to the determination of whether the majority of all shareholders', etc. voting rights are held as prescribed in item (iv) of the preceding paragraph are specified by Cabinet Office Ordinance in consideration of the manner in which they are held and other circumstances.

(Notification of Business Discontinuance)

- Article 50-2 (1) If a Financial Services Provider, etc. comes to fall under one of the following items, the person specified in that item must notify the Prime Minister of this within 30 days from the day in question:
- (i) the Financial Services Provider is an individual, and that individual dies: the heir;
  - (ii) the Financial Services Provider, etc. discontinues Financial Instruments Business, etc.: that corporation or individual;
  - (iii) the Financial Services Provider, etc. is a corporation, and that corporation disappears in a merger: the officer that represented the corporation;
  - (iv) the Financial Services Provider, etc. is a corporation, and that corporation is dissolved due to an order to commence bankruptcy proceedings: the bankruptcy trustee;
  - (v) the Financial Services Provider, etc. is a corporation, and that corporation is dissolved for reasons other than a merger or an order to commence bankruptcy proceedings: the liquidator;
  - (vi) the Financial Services Provider, etc. is a corporation, and that corporation

- has the whole or part of its business succeeded to in a company split: that corporation; or
- (vii) the Financial Services Provider, etc. transfers the whole or part of its business: that corporation or individual.
- (2) If a Financial Services Provider, etc. comes to fall under one of the items of the preceding paragraph (in item (vi) of the preceding paragraph, this is only if a Financial Services Provider, etc. has the whole of its business succeeded to in a company split, and in item (vii) of the preceding paragraph, this is only if a Financial Services Provider, etc. transfers the whole of its business), the Article 29 or Article 33-2 registration of the Financial Services Provider, etc. ceases to be valid.
- (3) If a Financial Services Provider is an individual (limited to one engaged in Investment Advisory Services) and that individual dies, the heir may continue to engage in Financial Transaction Business for 60 days after the death of the decedent (if, during that period, a disposition to refuse registration under Article 29-4, paragraph (1) is reached or the discontinuation of Financial Instruments Business (limited to Investment Advisory Services; hereinafter the same applies in this paragraph to paragraph (5) inclusive) is ordered pursuant to Article 52, paragraph (1) as it applies through the replacement of certain terms pursuant to the provisions of the following paragraph, the heir may continue to engage in Financial Instruments Business until the day on which the disposition is reached or the discontinuation is ordered; hereinafter referred to as the "Business Continuation Period" in this paragraph). The same applies until a disposition to make a registration or deny a registration in connection with an application is reached, if the heir files an application for the registration referred to in Article 29 (or, if the heir is a Financial Services Provider and files an application for the registration of a change referred to in Article 31, paragraph (4); hereinafter the same applies in this paragraph) during the Business Continuation Period and the Business Continuation Period elapses.
- (4) If it is permissible for an heir to continue engaging in Financial Transaction Business pursuant to the provisions of the preceding paragraph, the heir is deemed to be a Financial Services Provider (limited to one engaged in Investment Advisory Services), and the provisions of Articles 36 to 36-3 inclusive; Article 37; Article 37-3; Article 37-4; Articles 37-6 to 38-2 inclusive; Article 40; Articles 41 to 41-5 inclusive; Articles 44 to 44-3 inclusive; Article 45; Articles 47 to 47-3 inclusive; Article 49-2, paragraph (4); Article 49-4; Article 49-5; Article 51; Article 52, paragraph (1) (limited to the part that involves item (i) and items (vi) to (ix) inclusive); Article 52, paragraph (4) or (5); and Article 56-2 (limited to paragraph (1), (3) or (4)) (including the penal provisions linked with these provisions) apply. In this case, in Article 52,

- paragraph (1), the term "rescind its Article 29 registration" is deemed to be replaced with "order the discontinuation of Financial Transaction Business".
- (5) With regard to the application of the provisions of Article 29-4, paragraph (1) if the discontinuation of Financial Instruments Business is ordered pursuant to Article 52, paragraph (1) as it applies through the replacement of certain terms pursuant to the provisions of the preceding paragraph, the heir that is subject to the order for discontinuation is deemed to be a person that has had the registration referred to in Article 29 rescinded pursuant to the provisions of Article 52, paragraph (1), and the day on which the discontinuation is ordered is deemed to be the day on which the registration referred to in Article 29 is rescinded pursuant to the provisions of Article 52, paragraph (1).
- (6) If a Financial Services Provider, etc. seeks to discontinue Financial Transaction Business, etc. (excluding Investment Advisory and Agency Services; the same applies in paragraph (8) and Article 56, paragraph (1)), to implement a merger (limited to a merger in which the Financial Services Provider, etc. disappears), to dissolve for reasons other than merger or an order to commence bankruptcy proceedings, to have all or part of its business succeeded to in a company split, or to transfer all or part of its business, it must issue public notice of this and post a notice in a place easily seen by the public at all of its business offices and offices pursuant to the provisions of Cabinet Office Ordinance, by 30 days prior to the day on which it does so.
- (7) If a Financial Services Provider, etc. issues a public notice under the preceding paragraph, it must notify the Prime Minister of this immediately.
- (8) If a Financial Services Provider, etc. issues a public notice under paragraph (6) (unless it issues that public notice in connection with the succession of the whole or part of its business upon merger or in a company split or in connection with the transfer of the whole or part of its business), the Financial Services Provider, etc. must promptly complete the sales and purchases and other transactions of Securities and Derivatives Transactions, etc. it is conducting (referred to as "Customer Transactions" in Article 56 and Article 57-9) and return the assets that customers have deposited with it in connection with its Financial Instruments Business, etc. and the assets on its customers' accounts that are in its possession without delay.
- (9) The provisions of Article 940, paragraph (1) (limited to the part that involves item (i)) and Article 940, paragraph (3) of the Companies Act apply mutatis mutandis if a Financial Services Provider, etc. (limited to one that is a company) issues a public notice under paragraph (6) through an Electronic Public Notice (meaning an Electronic Public Notice as provided for in Article 2, item (xxxiv) of that Act; the same applies hereinafter). The necessary technical replacement of terms for such a case is specified by Cabinet Order.
- (10) The provisions of Article 940, paragraph (1) (limited to the part that involves

item (i)) of the Companies Act and Article 940, paragraph (3); Article 941; Article 946; Article 947; Article 951; paragraph (2); Article 953; and Article 955 of that Act apply mutatis mutandis if a Financial Services Provider, etc. (limited to one that is a foreign company) issues a public notice under paragraph (6) through an Electronic Public Notice. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Issuing a Business Improvement Order to a Financial Services Provider)

Article 51 If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors as concerns a Financial Services Provider's business operations or the state of its assets, the Prime Minister, within the scope of this necessity, may order the Financial Services Provider to change its business methods or to otherwise take measures that are necessary for improving its business operations or the state of its assets.

(Issuing a Business Improvement Order to a Registered Financial Institution)

Article 51-2 If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors as concerns a registered financial institution's business operations, the Prime Minister, within the scope of this necessity, may order the registered financial institution to change its business methods or to otherwise take measures that are necessary for improving its business operations.

(Supervisory Measures for Financial Services Providers)

Article 52 (1) If a Financial Services Provider falls under one of the following items, the Prime Minister may rescind its Article 29 registration, rescind its Article 30, paragraph (1) authorization, or order the suspension of all or a part of business activities during a fixed period of no longer than six months:

(i) it comes to fall under Article 29-4, paragraph (1), item (i), (ii), or (iii);

(ii) a Financial Services Provider engaged in Type I Financial Instruments Business, Type II Financial Transaction Business, or Investment Management comes to fall under Article 29-4, paragraph (1), item (iv);

(iii) a Financial Services Provider engaged in Type I Financial Transaction Business or Investment Management comes to fall under Article 29-4, paragraph (1), item (v), sub-item (a) or (b);

(iv) a Financial Services Provider engaged in Type I Financial Instruments Business comes to fall under Article 29-4, paragraph (1), item (vi), sub-item (b);

(v) it has received its Article 29 registration by wrongful means;

(vi) it violates a law or regulation (other than Article 46-6, paragraph (2)) or a disposition by a government agency which is based on a law or regulation, in

- connection with the Financial Transaction Business or services incidental thereto;
- (vii) in light of the state of its business or assets, it is likely to become insolvent;
  - (viii) a fact has occurred in connection with the operation of Investment Advisory and Agency Services or Investment Management, which is detrimental to the investors' interests;
  - (ix) it commits a wrongful or extremely unjust act in connection with the Financial Instruments Business, and the circumstances surrounding this are particularly serious;
  - (x) it violates the conditions attached to its Article 30, paragraph (1) authorization; or
  - (xi) a Financial Services Provider that has obtained Article 30, paragraph (1) authorization becomes unable to satisfy the criteria set forth in Article 30-4, items (i) to (iii) inclusive or (v).
- (2) If the officer of a Financial Services Provider (for a foreign corporation, this is limited to an officer stationed at its domestic business office or office and its domestic representative; hereinafter the same applies in this paragraph and paragraph (2) of the following Article) comes to fall under one of the categories in Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive, is discovered to have fallen under one of the categories in sub-items (a) to (g) inclusive of that item at the time of the Article 29 registration, or comes to fall under one of the categories in item (vi) or items (viii) to (x) inclusive of the preceding paragraph, the Prime Minister may order the Financial Services Provider to dismiss that officer.
- (3) If a Financial Services Provider that has obtained Article 30, paragraph (1) authorization comes to fall under Article 50, paragraph (1), item (ii), or if the Article 29 registration of the Financial Services Provider loses its validity pursuant to the provisions of Article 50-2, paragraph (2) or is rescinded pursuant to the provisions of paragraph (1), the following paragraph, Article 53, paragraph (3), Article 54 or Article 57-6, paragraph (3), that authorization ceases to be valid.
- (4) If the Prime Minister is unable to ascertain the location of the business offices or offices of a Financial Services Provider or is unable to ascertain the whereabouts of a Financial Services Provider (in the case of a corporation, the whereabouts of the officer representing the corporation), the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, may issue public notice of that fact and rescind the registration of the Financial Services Provider if no filing is made by the Financial Services Provider even after 30 days past the day of the public notice.
- (5) The provisions of Chapter III of the Administrative Procedure Act do not

apply to a disposition under the preceding paragraph.

(Supervisory Measures for Registered Financial Institutions)

- Article 52-2 (1) If a registered financial institution falls one of the following items, the Prime Minister may rescind its registration under Article 33-2, or order the suspension of all or a part of business activities during a fixed period of no longer than six months:
- (i) it has come to fall under Article 33-5, paragraph (1), item (i), (ii), or (iii);
  - (ii) it has received its Article 33-2 registration by wrongful means;
  - (iii) it violates a law or regulation or a disposition by a government agency which is based on a law or regulation, in connection with the services of a registered financial institution or services incidental thereto;
  - (iv) a fact has occurred in connection with the operation of its Investment Advisory and Agency Services, which is detrimental to the investors' interests ; or
  - (v) it has committed a wrongful or unjust act in connection with the services of a registered financial institution, and the circumstances surrounding this are particularly serious.
- (2) If the officer of a registered financial institution comes to fall under one of the categories in items (iii) to (v) inclusive of the preceding paragraph, the Prime Minister may order the registered financial institution to dismiss that officer.
- (3) If the Prime Minister is unable to ascertain the location of the business offices or offices of a registered financial institution or is unable to ascertain the whereabouts of the officer representing the registered financial institution, the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, may issue public notice of that fact and rescind the registration of the registered financial institution if no filing is made by the registered financial institution even after 30 days past the day of the public notice.
- (4) The provisions of Chapter III of the Administrative Procedure Act do not apply to a disposition under the preceding paragraph.

(Orders Involving the Capital Adequacy Ratio)

- Article 53 (1) If a Financial Services Provider (limited to one engaged in Type I Financial Instruments Business; hereinafter the same applies in this Article) violates the provisions of Article 46-6, paragraph (2) and the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister, within the scope of this necessity, may order a change of business methods, order assets to be deposited, or issue orders with respect to matters that are otherwise necessary from a supervisory perspective.
- (2) If a Financial Services Provider violates the provisions of Article 46-6,

paragraph (2) (but only if the Capital Adequacy Ratio is less than 100 percent) and the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister, within the scope of this necessity, may order the suspension of all or a part of business activities during a fixed period of no longer than three months.

- (3) If the Prime Minister orders the suspension of all or a part of business activities pursuant to the provisions of the preceding paragraph, and finds that the Capital Adequacy Ratio of the Financial Services Provider as of the day on which three months have elapsed since the day of the order continues to be less than 100 percent and that the Financial Services Provider's Capital Adequacy Ratio status is not likely to recover, the Prime Minister may rescind the Article 29 registration of that Financial Services Provider.

(Rescission of Registration Due to Non-commencement or Suspension of Business)

Article 54 If, without legitimate grounds for doing so, a Financial Services Provider, etc. does not commence business within three months of the day on which it is permitted to begin engaging in Financial Instruments Business, etc. or suspends business for three months or more continually, the Prime Minister may rescind the Article 29 or Article 33-2 registration of that Financial Services Provider, etc.

(Public Notice of Supervisory Measures)

Article 54-2 In the cases set forth as follows, the Prime Minister shall issue public notice indicating as follows, pursuant to the provisions of Cabinet Office Ordinance:

- (i) the Prime Minister rescinds an Article 29 or Article 33-2 registration or an Article 30, paragraph (1) authorization, or orders the suspension of all or a part of business activities pursuant to the provisions of Article 52, paragraph (1) or Article 52-2, paragraph (1);
- (ii) the Prime Minister orders the suspension of all or a part of business activities pursuant to the provisions of Article 53, paragraph (2); or
- (iii) the Prime Minister rescinds an Article 29 or Article 33-2 registration pursuant to the provisions of Article 52, paragraph (4); Article 52-2, paragraph (3); Article 53, paragraph (3); or the preceding Article.

(Deletion of a Registration)

Article 55 (1) If an Article 29 or Article 33-2 registration loses its validity pursuant to the provisions of Article 50-2, paragraph (2) or if the Prime Minister rescinds an Article 29 or Article 33-2 registration pursuant to the provisions of Article 52, paragraph (1) or (4); Article 52-2, paragraph (1) or (3);

Article 53, paragraph (3); or Article 54; the Prime Minister must delete that registration.

- (2) If the Prime Minister rescinds an Article 30, paragraph (1) authorization pursuant to the provisions of Article 52, paragraph (1) or an Article 30, paragraph (1) authorization loses its validity pursuant to the provisions of Article 52, paragraph (3), the Prime Minister must delete the supplementary note indicating that the Article 30, paragraph (2) authorization has been given.

(Completion of Remaining Business)

Article 56 (1) The provisions of Article 50-2, paragraph (8) apply mutatis mutandis to a person that was a Financial Services Provider, etc. if that Financial Services Provider, etc. dissolves or discontinues Financial Instruments Business, etc., or has its Article 29 or Article 33-2 registration rescinded pursuant to the provisions of Article 52, paragraph (1); Article 52-2, paragraph (1); Article 53, paragraph (3); or Article 54. In such a case, the person that was the Financial Services Provider, etc. is deemed to still be a Financial Services Provider, etc. inasmuch as the task of completing Customer Transactions is concerned.

- (2) Except in a case to which the provisions of the preceding paragraph are applicable, the provisions of Article 50-2, paragraph (8) apply mutatis mutandis to the Customer Transactions involved in the business of a Financial Services Provider if a Financial Services Provider that has obtained Article 30, paragraph (1) authorization discontinues the business to which that authorization pertains or has that authorization rescinded pursuant to the provisions of Article 52, paragraph (1). In such a case, the Financial Services Provider is deemed to still have Article 30, paragraph (1) authorization inasmuch as the task of completing the Customer Transactions involved in that business is concerned.

(Collection of Reports and Inspections)

Article 56-2 (1) Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a Financial Services Provider, etc., a person that conducts transactions with a Financial Services Provider, etc., a Bank, etc. in which a Financial Services Provider, etc. (excluding a registered financial institution) holds the majority of all shareholders', etc. voting rights (hereinafter such a Bank, etc. is referred to as a "Specified Subsidiary Corporation" in this paragraph), a Holding Company (meaning a holding company as prescribed in Article 9, paragraph (5), item (i) of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade; hereinafter the same applies in this Article) that has a Financial Services Provider, etc. as its Subsidiary

Company (meaning a Subsidiary Company as prescribed in Article 29-4, paragraph (3); hereinafter the same applies in this Article), or the person that a Financial Services Provider, etc. has entrusted with its business, to submit reports or materials that should serve as a reference in connection with the business or assets of the Financial Services Provider, etc. (but may only order a Specified Subsidiary Corporation submit reports or materials that should serve as a reference in connection with the assets of the Financial Services Provider, etc. (excluding a registered financial institution)), and may have the relevant officials inspect the state of the business or assets, or the books and documents or any other articles, of a Financial Services Provider, etc., a Specified Subsidiary Corporation, a Holding Company that has a Financial Services Provider, etc. as its Subsidiary Company, or the person that a Financial Services Provider, etc. has entrusted with its business (but may only have the relevant officials inspect a Specified Subsidiary Corporation as is necessary in connection with the assets of the Financial Services Provider, etc. (excluding a registered financial institution), and may only have the relevant officials inspect a Holding Company that has a Financial Services Provider, etc. as its Subsidiary Company, or the person that a Financial Services Provider, etc. has entrusted with its business, as is necessary in connection with the business or assets of the Financial Services Provider, etc.).

(2) Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order the Major Shareholder (meaning a Major Shareholder as provided for in Article 29-4, paragraph (2); hereinafter the same applies in this paragraph) of a Financial Services Provider (limited to one engaged in Type I Financial Instruments Business or Investment Management, and excluding a foreign corporation; hereinafter the same applies in this paragraph) or the Major Shareholder of a Holding Company that has a Financial Services Provider as its Subsidiary Company to submit a notification or take measures referred to in Articles 32 to 32-3 inclusive (this means Article 32, paragraph (1) or (2); Article 32-2, paragraph (1); or Article 32-3, paragraph (1) as applied mutatis mutandis pursuant to Article 32-4 in the case of the Major Shareholder of a Holding Company that has a Financial Services Provider as its Subsidiary Company; hereinafter the same applies in this paragraph), and to submit reports or materials that should serve as a reference in connection with the business or assets of a Financial Services Provider, and may have the relevant officials inspect documents or other articles of such a Major Shareholder (but only as is necessary in connection with the notification or measures referred to in Articles 32 to 32-3 inclusive or the business or assets of the Financial Services Provider, etc.).

(3) In a case other than what is provided for in paragraph (1), whenever the

Prime Minister finds it to be necessary and appropriate for ensuring compliance with the provisions of Article 36, paragraph (2), the Prime Minister may order the Parent Financial Institution, etc. (meaning a Parent Financial Institution, etc. provided for in Article 36, paragraph (4); hereinafter the same applies in this paragraph) or Subsidiary Financial Institution, etc. (meaning a Subsidiary Financial Institution, etc. provided for in Article 36, paragraph (5); hereinafter the same applies in this paragraph) of a Specified Financial Services Provider, etc. (meaning a Specified Financial Services Provider, etc. provided for in Article 36, paragraph (3); hereinafter the same applies in this paragraph) to submit reports or materials that should serve as a reference in connection with the business or assets of the Specified Financial Services Provider, etc., and may have the relevant officials inspect the state of the business or assets, or the books and documents or any other articles, of the Parent Financial Institution, etc. or the Subsidiary Financial Institution, etc. of the relevant Specified Financial Services Provider, etc.

(4) In a case other than what is provided for in paragraph (1), whenever the Prime Minister finds it to be necessary and appropriate for ensuring compliance with Article 44-3, the Prime Minister may order the Parent Bank, etc. (meaning a Parent Bank, etc. provided for in Article 31-4, paragraph (3); hereinafter the same applies in this paragraph) or Subsidiary Bank, etc. (meaning a Subsidiary Bank, etc. provided for in Article 31-4, paragraph (4); hereinafter the same applies in this paragraph) of a Financial Services Provider to submit reports or materials that should serve as a reference in connection with the business or assets of the Financial Services Provider, and may have the relevant officials inspect the state of the business or assets, or the books and documents or any other articles, of the Parent Bank, etc. or Subsidiary Bank, etc. of the relevant Financial Services Provider.

(Retention of Assets Within Japan)

Article 56-3 Beyond what is provided for in Article 49-5, if the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a Financial Services Provider to keep the portion of its assets that is specified by Cabinet Order within Japan.

(Supervision of a Financial Services Provider, etc. That Is Not a Member, etc. of a Financial Instruments Exchange, etc.)

Article 56-4 (1) The Prime Minister shall conduct the appropriate supervision as regards the business of a Financial Services Provider, etc. (with regard to Financial Services Providers, limited to those engaged in Type I Financial Instruments Business or Investment Management; hereinafter the same

applies in this Article) that has not joined an Association (meaning an Authorized Financial Instruments Business Association or Certified Financial Instruments Business Association prescribed in Article 78, paragraph (2); hereinafter the same applies in this Article) or that is not a member or Trading Participant (referred to as a "Member, etc." in the following paragraph) of a Financial Instruments Exchange, with due consideration for the articles of incorporation and any other rules of such Associations and Financial Instruments Exchanges, so that its business does not damage to the public interest or result in insufficient investor protection.

- (2) In order to conduct the supervision prescribed in the preceding paragraph, the Prime Minister may order a Financial Services Provider, etc. that has not joined an Association or that is not a Member, etc. of a Financial Instruments Exchange to prepare or change the rules with which the Financial Services Provider, etc. or the officers or employees are to comply (hereinafter referred to as "Internal Rules" in this Article), with due consideration for the articles of incorporation and any other rules of such Associations and Financial Instruments Exchanges.
- (3) A Financial Services Provider, etc. that is ordered to prepare or change the Internal Rules pursuant to the provisions of the preceding paragraph must prepare or change the Internal Rules and obtain the approval of the Prime Minister within 30 days.
- (4) A Financial Services Provider, etc. that has obtained the approval referred to in the preceding paragraph must obtain the approval of the Prime Minister if it seeks to change or discontinue the Internal Rules for which it has obtained that approval.

(Hearing)

Article 57 (1) Before seeking to refuse an Article 29 or Article 33-2 registration, an Article 30, paragraph (1) authorization, or an Article 31, paragraph (4) registration of a change, the Prime Minister must notify the applicant for registration or the Financial Services Provider, and have the relevant officials conduct a hearing regarding the applicant for registration or the Financial Services Provider.

- (2) Irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, before seeking to issue a disposition based on the provisions of Article 51; Article 51-2; Article 52, paragraph (1); Article 52-2, paragraph (1); Article 53; Article 54; or Article 56-3, the Prime Minister must conduct a hearing.
- (3) Upon deciding to grant or to refuse an Article 29 or Article 33-2 registration, the an Article 30, paragraph (1) or Article 31, paragraph (6) authorization, an Article 31, paragraph (4) registration of a change, an Article 35, paragraph (4)

approval, or the approval referred to in paragraph (3) or (4) of the preceding Article, to attach conditions pursuant to the provisions of Article 30-2, paragraph (1), or to issue a disposition based on the provisions of Article 51; Article 51-2; Article 52, paragraph (1) or (2); Article 52-2, paragraph (1) or (2); Article 53; Article 54; Article 56-3; or paragraph (2) of the preceding Article, the Prime Minister must notify the applicant for registration or the Financial Services Provider of this in writing.

**Section 4-2 Special Provisions on Special Financial Services Providers, etc.**

**Subsection 1 Special Financial Services Providers**

(Notifications for Special Financial Services Providers)

Article 57-2 (1) If the total asset value (meaning the total monetary value of assets calculated pursuant to the provisions of Cabinet Office Ordinance; hereinafter the same applies in this Article) of a Financial Services Provider (limited to one engaged in Type I Financial Instruments Business, excluding foreign corporations; hereinafter the same applies in this Subsection) exceeds the amount of money specified by Cabinet Order as representing the scope of all assets required for ensuring the sound and appropriate operation of the business of the group consisting of the Financial Services Provider and its Subsidiary Corporations, etc. (hereinafter referred to as the "Total Asset Value Threshold" in this Article), the Financial Services Provider must notify the Prime Minister of this, of the total asset value, and of the basis for its calculation within two weeks from the day on which that value is exceeded; provided, however, that if the total asset value comes to be equal to or lower than the Total Asset Value Threshold after the Financial Services Provider has made the notification under the main clause of this paragraph, but the total asset value of the Financial Services Provider again comes to exceed the Total Asset Value Threshold by the time that two years have elapsed counting from the day on which the total asset value came to be equal to or lower than the Total Asset Value Threshold, the Financial Services Provider is not required to submit notification of this or of the total asset value and the basis for its calculation.

(2) A Special Financial Services Provider (meaning a Financial Services Provider that has made the notification under the provisions of the preceding paragraph, excluding one that comes to fall under paragraph (6), item (ii) after making that notification; hereinafter the same applies in this Section) shall submit the following documents within the period specified by Cabinet Order counting from the day on which it makes the notification under the provisions of the preceding paragraph (hereinafter referred to as the "Notification Date" in this

Subsection) if that Special Financial Services Provider has a Parent Company as of the Notification Date:

- (i) a document in which it states the trade name or name of the Parent Company of the Special Financial Services Provider and other particulars specified by Cabinet Office Ordinance;
  - (ii) the latest Quarterly Report of the company that, among the Parent Companies of the Special Financial Services Provider, itself has no Parent Company, and other documents in which it describes the state of the business and assets of the Parent Company of the Special Financial Services Provider and its Subsidiary Corporations, etc. pursuant to the provisions of Cabinet Office Ordinance;
  - (iii) if the group consisting of the Parent Company of the Special Financial Services Provider and its Subsidiary Corporations, etc. is under the supervision of an administrative organization based on other laws and regulations (including if the group is under the supervision of an administrative organization in a foreign state or any other equivalent organization based on foreign laws and regulations) with respect to the state of its business operations and assets, a document explaining this; and
  - (iv) if the Parent Company of the Special Financial Services Provider does the management and administration of the Special Financial Services Provider or if the Parent Company of the Special Financial Services Provider or its Subsidiary Corporation, etc. provides assistance related to fund procurement to the Special Financial Services Provider, a document in which it states the content and methods of this management and administration or assistance, pursuant to the provisions of Cabinet Office Ordinance.
- (3) If a Special Financial Services Provider comes to have a Parent Company on or after the Notification Date, the Special Financial Services Provider must submit the documents set forth in the items of the preceding paragraph to the Prime Minister within the period specified by Cabinet Order, as calculated beginning from the day on which it came to have that Parent Company.
- (4) If a particular stated in a document set forth in item (i), (iii) or (iv) of paragraph (2) changes (excluding a document specified by Cabinet Office Ordinance which concerns a Designated Parent Company as prescribed in Article 57-12, paragraph (3) or its Subsidiary Corporation, etc.), the Special Financial Services Provider (limited to one with a Parent Company) that has submitted the document set forth in the relevant item of paragraph (2) pursuant to the provisions of the preceding two paragraphs must notify the Prime Minister of this without delay, pursuant to the provisions of Cabinet Office Ordinance.
- (5) For each quarter (meaning each of the periods categorized into January to March, April to June, July to September, and October to December; hereinafter

the same applies in this paragraph, Article 57-5, paragraphs (2) and (3) and Article 57-17, paragraphs (2) and (3)), a Special Financial Services Provider (limited to one with a Parent Company) that submits the documents set forth in the items of paragraph (2) pursuant to the provisions of paragraph (2) or (3), shall submit the Quarterly Report of the company that, among the Parent Companies of that Special Financial Services Provider, itself has no Parent Company, and submit other documents in which it describes the state of the business and assets of the Parent Company of the Special Financial Services Provider and its Subsidiary Corporations, etc. pursuant to the provisions of Cabinet Office Ordinance (excluding documents specified by Cabinet Office Ordinance which concern the highest Designated Parent Company provided for in Article 57-12, paragraph (3) or its Subsidiary Corporations, etc.), to the Prime Minister within the period specified by Cabinet Order after the end of the quarter.

- (6) If a Special Financial Services Provider comes to fall under one of the following items, it must notify the Prime Minister of this without delay:
  - (i) it comes to no longer have a Parent Company; or
  - (ii) two years have elapsed counting from the day on which the total asset value came to be equal to or lower than the Total Asset Value Threshold, without the total asset value exceeding the Total Asset Value Threshold.
- (7) If the Prime Minister accepts a notification under paragraph (1), the Prime Minister must note that the Financial Services Provider that has made such notification is a Special Financial Services Provider in said Financial Services Provider's registration.
- (8) The term "Parent Company" as used in paragraphs (2) to (6) inclusive means a first company that has a second company as its Subsidiary Company (meaning a Subsidiary Company as prescribed in Article 29-4, paragraph (3); hereinafter the same applies in the following paragraph).
- (9) The term "Subsidiary Corporation, etc." as used in paragraphs (1), (2), (4), and (5) means the Subsidiary Company of another company or any other person that falls under the requirements specified by Cabinet Order as a corporation or other organization that is closely related to that other company.

(Submission of Business Reports)

Article 57-3 (1) In and after the business year that includes the day on which the period specified by Cabinet Order elapses counting from the Notification Date, pursuant to the provisions of Cabinet Office Ordinance, a Special Financial Services Provider (limited to a Special Financial Services Provider with a Subsidiary Corporation, etc. (meaning a Subsidiary Corporation, etc. as prescribed in paragraph (9) of the preceding Article; hereinafter the same applies in this Subsection)) shall prepare a business report on a consolidated

basis describing the state of the business and assets of the Special Financial Services Provider and its Subsidiary Corporation, etc., and submit that business report to the Prime Minister within three months after the end of each business year.

- (2) In addition to submitting a business report pursuant to the provisions of the preceding paragraph, a Special Financial Services Provider shall report the state of the business and assets of the Special Financial Services Provider and its Subsidiary Corporations, etc. to the Prime Minister pursuant to the provisions of Cabinet Office Ordinance.
- (3) If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a Special Financial Services Provider to make public notice of all or part of the business report referred to in paragraph (1), pursuant to the provisions of Cabinet Order.

(Public Inspection of Explanatory Documents)

Article 57-4 In and after the business year that includes the day on which the period specified by Cabinet Order elapses counting from the Notification Date, a Special Financial Services Provider shall prepare explanatory documents on a consolidated basis for the Special Financial Services Provider and its Subsidiary Corporations, etc., stating the particulars specified by Cabinet Office Ordinance as pertinent to the state of the business and assets of the Special Financial Services Provider and its Subsidiary Corporations, etc., and shall keep those explanatory documents at all of its business offices and offices and make them available for public inspection during the one-year period beginning from the day on which the period specified by Cabinet Order elapses following the end of each business year.

(Written Notification Stating the Soundness of Management)

- Article 57-5 (1) In order to contribute to the sound and appropriate operation of the business of a Special Financial Services Provider, the Prime Minister shall establish criteria for whether the capital adequacy of the Special Financial Services Provider and its Subsidiary Corporations, etc. is appropriate in light of the assets, etc. held by the Special Financial Services Provider and its Subsidiary Corporations, etc. and other criteria that indicate soundness in the management of the Special Financial Services Provider and its Subsidiary Corporation, etc., as criteria by which the Special Financial Services Provider is to judge the soundness of its management.
- (2) For each quarter in and after the quarter that includes the day on which the period specified by Cabinet Order elapses counting from the Notification Date, a Special Financial Services Provider shall submit a document to the Prime

Minister in which it describes the soundness of its management as of the last day of the quarter, as indicated by the criteria prescribed in the preceding paragraph (hereinafter simply referred to as the "Soundness of Management" in the following paragraph and the following Article), pursuant to the provisions of Cabinet Office Ordinance.

- (3) For each quarter in and after the quarter that includes the day on which the period specified by Cabinet Order elapses counting from the Notification Date and pursuant to the provisions of Cabinet Office Ordinance, a Special Financial Services Provider shall keep a document in which it describes the Soundness of Management at all of its business offices and offices and make this document available for public inspection during the three-month period beginning from the day on which the period specified by Cabinet Order elapses counting from the end of the quarter.

(Supervisory Measures Corresponding with the Soundness of Management)

- Article 57-6 (1) If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors in light of the Soundness of Management of a Special Financial Services Provider and its Subsidiary Corporations, etc., the Prime Minister, within the scope of this necessity, may order a Special Financial Services Provider to suspend all or a part of business activities during a fixed period of no longer than three months, may order it to change business methods or to deposit assets, and may issue orders to it in respect of matters that are otherwise necessary from a supervisory perspective.
- (2) An order under the provisions of the preceding paragraph is to be given so as to correspond with the classification of the Soundness of Management of a Special Financial Services Provider and its Subsidiary Corporations, etc., and the Prime Minister must determine such classifications and the nature of the corresponding orders in advance and issue public notice of the same.
- (3) If the Prime Minister orders a Special Financial Services Provider to suspend all or a part of its business activities pursuant to the provisions of paragraph (1), and the Soundness of Management of the Special Financial Services Provider and its Subsidiary Corporation, etc. does not improve and is found to have no prospect of improving as of the day on which three months have elapsed since the day of the order, the Prime Minister may rescind the Article 29 registration of the Special Financial Services Provider.

(Public Notice of Supervisory Measures)

Article 57-7 In the cases set forth as follows, the Prime Minister shall make a public notice indicating as follows, pursuant to the provisions of Cabinet Office Ordinance:

- (i) the Prime Minister orders the suspension of all or a part of business

activities pursuant to the provisions of paragraph (1) of the preceding Article; or

(ii) the Prime Minister rescinds an Article 29 registration pursuant to the provisions of paragraph (3) of the preceding Article.

(Deletion of Registration)

Article 57-8 (1) If the Prime Minister rescinds an Article 29 registration pursuant to the provisions of Article 57-6, paragraph (3), the Prime Minister must delete that registration.

(2) If the Prime Minister accepts a notification under the provisions of Article 57-2, paragraph (6), item (ii), the Prime Minister must delete the supplementary note indicating that the person is a Special Financial Services Provider as prescribed in paragraph (7) of that Article.

(Completion of Remaining Business)

Article 57-9 The provisions of Article 50-2, paragraph (8) apply mutatis mutandis to a person that was a Special Financial Services Provider if the Special Financial Services Provider has had the registration referred to in Article 29 rescinded pursuant to the provisions of Article 57-6, paragraph (3). In such a case, the person that was the Special Financial Services Provider is deemed to still be a Financial Services Provider inasmuch as the task of completing Customer Transactions is concerned.

(Collection of Reports and Inspections)

Article 57-10 (1) Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order the Subsidiary Company, etc. of a Special Financial Services Provider to submit reports or materials that should serve as a reference in connection with the assets of the Special Financial Services Provider, and may have the relevant officials inspect the state of the business or assets, or the books and documents or any other articles, of such a Subsidiary Company, etc. (but only as is necessary in connection with the property of the Special Financial Services Provider).

(2) The term "Subsidiary Company, etc." as used in the preceding paragraph means a second company, etc. with a parent company, etc. (meaning a company, etc. (meaning a company, partnership, or other equivalent business entity, including anything that is equivalent to these in a foreign state; hereinafter the same applies in this paragraph) specified by Cabinet Office Ordinance as a first company, etc. that controls the mechanism that decides the financial and operational or business policies of a second company, etc. (meaning the shareholders or other equivalent body; hereinafter referred to as the "Decision-

Making Body" in this paragraph)) that controls its Decision-Making Body. In such a case, a second company, etc. whose Decision-Making Body is controlled by a parent company, etc. and its Subsidiary Company, etc. or whose Decision-Making Body is controlled by the Subsidiary Company, etc. of such a parent company, etc. is deemed to be a Subsidiary Company, etc. of that parent company, etc.

(Hearings)

- Article 57-11 (1) Irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, before seeking to issue a disposition based on the provisions of Article 57-6, paragraph (1) or (3), the Prime Minister must conduct a hearing.
- (2) If the Prime Minister decides to issue a disposition based on the provisions of Article 57-6, paragraph (1) or (3), the Prime Minister must notify the Special Financial Services Provider of this in writing.

### **Subsection 2 Designated Parent Company**

(Designation)

- Article 57-12 (1) If the Parent Company (meaning a Parent Company as prescribed in Article 57-2, paragraph (8); hereinafter the same applies in this Section) of a Special Financial Services Provider or its Subsidiary Corporation, etc. satisfies one of the following requirements, and the Prime Minister finds that ensuring the sound and appropriate operation of the business of the Parent Company and its Subsidiary Corporations, etc. is particularly necessary in the public interest or for the protection of investors, the Prime Minister is to designate the Parent Company as a person that is subject to the application of the provisions of this Subsection:
- (i) the Parent Company does the management and administration of the Special Financial Services Provider in the course of trade; or
  - (ii) the Parent Company or its Subsidiary Corporation, etc. lends funds to, guarantees obligations for, or provides other similar assistance with fund procurement to the Special Financial Services Provider for the purpose of its business operations, and it is found that the suspension of such assistance would be likely to substantially compromise the sound and appropriate operation of the business of the Special Financial Services Provider.
- (2) If the group consisting of the Parent Company of a Special Financial Services Provider and its Subsidiary Corporations, etc. is found to be under appropriate supervision by an administrative organization based on other laws and regulations (including if the group is found to be under appropriate supervision by a foreign administrative organization or any other equivalent organization

based on foreign laws and regulations) with respect to the state of its business operations and assets, the Prime Minister may choose not to make the designation under the provisions of the preceding paragraph.

- (3) Upon effecting a designation under the provisions of paragraph (1), the Prime Minister shall notify the person subject to the designation (hereinafter referred to as "Designated Parent Company") in writing of this, as well as notifying it of the trade name of the Special Financial Services Provider connected with that designation (hereinafter referred to as "Subject Special Financial Services Provider"), and whether or not it, as the Designated Parent Company, is the highest Designated Parent Company (meaning a Designated Parent Company that does not have a Parent Company which is the Designated Parent Company of the same Subject Special Financial Services Provider as itself; hereinafter the same applies in this Subsection). The same applies if these matters change.
- (4) Upon making a designation under the provisions of paragraph (1), the Prime Minister shall make public notice of the trade name or name and the location of the head office or principal office of the Designated Parent Company (for a foreign company that has an office in Japan, this includes the location of its principal office in Japan; hereinafter the same applies in paragraph (1), item (iv) of the following Article), and the trade name of the Subject Special Financial Services Provider in the official gazette. The same applies if one of these particulars changes.
- (5) If the Prime Minister finds that the grounds for a Designated Parent Company becoming subject to a designation under the provisions of paragraph (1) have ceased to exist, the Prime Minister, in addition to cancelling that designation, must give written notice of this to the Designated Parent Company whose designation is being cancelled.
- (6) If the Prime Minister cancels a designation pursuant to the provisions of the preceding paragraph, the Prime Minister shall issue public notice of this in the official gazette.

(Notification by a Designated Parent Company )

Article 57-13 (1) A Designated Parent Company shall submit a document to the Prime Minister in which it states the following particulars, by the day on which the period specified by Cabinet Order has elapsed since the day it became subject to the designation under the provisions of paragraph (1) of the preceding Article; provided, however, that this does not apply if the Designated Parent Company is no longer the Parent Company of the Subject Special Financial Services Provider by such day:

- (i) its trade name or name;
- (ii) the amount of stated capital or the total amount of contributions;

- (iii) the names of its officers;
  - (iv) the name and location of its head office or principal office;
  - (v) if applicable, an indication that the group consisting of the Designated Parent Company and its Subsidiary Corporations, etc. is under the supervision of an administrative organization based on other laws and regulations (including if the group is under the supervision of a foreign administrative organization or any other equivalent organization based on foreign laws and regulations) with respect to the state of its business operations and assets;
  - (vi) the things specified by Cabinet Office Ordinance as constituting the business outline and business methods as regards the management and administration of the Subject Special Financial Services Provider by the Designated Parent Company or assistance with fund procurement given to the Subject Special Financial Services Provider by the Designated Parent Company or its Subsidiary Corporation, etc.; and
  - (vii) other particulars specified by Cabinet Office Ordinance.
- (2) The following documents must accompany the document referred to in the preceding paragraph:
- (i) a document pledging that the Designated Parent Company does not fall under the purview of Article 57-20, paragraph (1), item (i) or (iv) (in the case of a foreign company, item (i) of that paragraph); and
  - (ii) its articles of incorporation, its certificate of registered information, and other documents specified by Cabinet Office Ordinance.
- (3) As concerns the documents set forth in item (ii) of the preceding paragraph accompanying the document under paragraph (1), if the articles of incorporation have been prepared as electronic or magnetic records, such electronic or magnetic records (limited to those specified by Cabinet Office Ordinance) may accompany that document in lieu of written documents.

(Notification of a Change)

Article 57-14 If the particulars set forth in one of the items of paragraph (1) of the preceding Article changes, the Designated Parent Company must notify the Prime Minister of this within two weeks from the day of the change, pursuant to the provisions of Cabinet Office Ordinance.

(Submission of Business Reports)

Article 57-15 (1) In and after the business year that includes the day on which the period specified by Cabinet Order elapses counting from the day on which a company becomes the highest Designated Parent Company and pursuant to the provisions of Cabinet Office Ordinance, the highest Designated Parent Company shall prepare a business report on a consolidated basis, in which it

describes the state of the business and assets of the highest Designated Parent Company and its Subsidiary Corporations, etc., and submit this business report to the Prime Minister within three months after the end of each business year.

- (2) In addition to submitting a business report pursuant to the provisions of the preceding paragraph, the highest Designated Parent Company shall report the state of the business and assets of the highest Designated Parent Company and its Subsidiary Corporations, etc. to the Prime Minister pursuant to the provisions of Cabinet Office Ordinance.
- (3) If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister, pursuant to the provisions of Cabinet Order, may order the highest Designated Parent Company to make public notice of all or part of the business report referred to in paragraph (1).

(Public Inspection of Explanatory Documents)

Article 57-16 In and after the business year that includes the day on which the period specified by Cabinet Order elapses counting from the day on which a company becomes the highest Designated Parent Company, the highest Designated Parent Company shall prepare explanatory documents on a consolidated basis for the highest Designated Parent Company and its Subsidiary Corporations, etc., stating the particulars specified by Cabinet Office Ordinance as pertinent to the state of the business and assets of the highest Designated Parent Company and its Subsidiary Corporations, etc., and shall keep these explanatory documents at all of the business offices and offices of the Subject Special Financial Services Provider and make them available for public inspection during the one-year period beginning from the day on which the period specified by Cabinet Order elapses following the end of each business year.

(Written Notification Stating the Soundness of Management)

Article 57-17 (1) In order to contribute to the sound and appropriate operation of the business of a Subject Special Financial Services Provider, the Prime Minister shall establish criteria for whether the capital adequacy of the highest Designated Parent Company and its Subsidiary Corporations, etc. is appropriate in light of the assets, etc. held by the highest Designated Parent Company and its Subsidiary Corporations, etc. and other criteria that indicate soundness in the management of the highest Designated Parent Company and its Subsidiary Corporations, etc., as criteria by which the highest Designated Parent Company is to judge the soundness in the management of the highest Designated Parent Company and its Subsidiary Corporations, etc.

- (2) For each quarter in and after the quarter that includes the day on which the period specified by Cabinet Order elapses counting from the day on which a company becomes the highest Designated Parent Company, the highest Designated Parent Company shall submit a document to the Prime Minister in which it describes the soundness of its management as of the last day of the quarter, as indicated by the criteria prescribed in the preceding paragraph (hereinafter simply referred to as "Soundness of Management" in the following paragraph and Article 57-21, paragraphs (1) to (3) inclusive), pursuant to the provisions of Cabinet Office Ordinance in each quarter
- (3) For each quarter in and after the quarter that includes the day on which the period specified by Cabinet Order elapses counting from the day on which a company becomes the highest Designated Parent Company, the highest Designated Parent Company shall keep a document in which it describes the Soundness of Management at all of the business offices or offices of the Subject Special Financial Services Provider and make this document available for public inspection during the three-month period beginning from the day on which the period specified by Cabinet Order elapses counting from the end of the quarter, pursuant to the provisions of Cabinet Office Ordinance.

(Notifications)

- Article 57-18 (1) If a Designated Parent Company comes to fall under any of the following items, it must notify the Prime Minister of this without delay, pursuant to the provisions of Cabinet Office Ordinance:
- (i) it merges with another corporation (unless the Designated Parent Company disappears in the merger);
  - (ii) it files a petition to commence bankruptcy proceedings, rehabilitation proceedings, or reorganization proceedings; or
  - (iii) it falls under any other case specified by Cabinet Office Ordinance.
- (2) If a Designated Parent Company comes to fall under one of the following items, the person specified in that item must notify the Prime Minister of this within 30 days from the day in question:
- (i) it comes to no longer be the Parent Company of the Subject Special Financial Services Provider: the company that used to be the Designated Parent Company;
  - (ii) it disappears in a merger: the officer that represented the Designated Parent Company;
  - (iii) it dissolves as a result of an order to commence bankruptcy proceedings: the bankruptcy trustee; or
  - (iv) it dissolves for reasons other than a merger or an order to commence bankruptcy proceedings: the liquidator.
- (3) If a Designated Parent Company comes to fall under one of the items of the

preceding paragraph, the designation under the provisions of Article 57-12, paragraph (1) ceases to be valid.

- (4) If there has been a notification under the provisions of paragraph (2), the Prime Minister shall issue public notice that the designation has lost its validity pursuant to the provisions of the preceding paragraph in the official gazette.

(Issuing a Business Improvement Order to a Designated Parent Company)

Article 57-19 (1) If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors in light of the state of the business of a Designated Parent Company or the state of the assets of a Designated Parent Company and its Subsidiary Corporations, etc., the Prime Minister, within the scope of this necessity, may order the Designated Parent Company to take measures that are necessary for improving the state of the business operations or the assets of Subject Special Financial Services Provider.

- (2) If the Prime Minister issues an order under the provisions of the preceding paragraph to a Designated Parent Company and finds it to be particularly necessary in light of the execution status of measures under that order, the Prime Minister may order the Subject Special Financial Services Provider to take measures that are necessary for improving its business operations or the state of its assets.

(Order for Measures to Be Taken by a Designated Parent Company)

Article 57-20 (1) If a Designated Parent Company falls under one of the following items, the Prime Minister may order the Designated Parent Company to take measures so that it will cease to be the Parent Company of a Subject Special Financial Instruments Services Provider or to take other necessary measures within a fixed a period of no longer than three months:

- (i) it has a person falling under one of sub-items (a) to (g) inclusive of Article 29-4, paragraph (1), item (ii) as an officer;
- (ii) its business is found to be contrary to the public interest;
- (iii) in light of the personnel structure of the Designated Parent Company, the sound and appropriate operation of the business of the Subject Special Financial Services Provider is likely to be impaired; or
- (iv) it is a domestic company, but is not a stock company (meaning a stock company that has in place the following organs):
  - (a) a board of directors; and
  - (b) a board of company auditors or committees; and

- (2) If a Designated Parent Company falls under one of the following items, the Prime Minister may order the Designated Parent Company to take measures so that it will cease to be the Parent Company of a Subject Special Financial

Services Provider or to take other necessary measures within a fixed period of no longer than three months, or may order the Subject Special Financial Services Provider to suspend all or a part of its business activities during a fixed period of no longer than six months:

- (i) it violates a law or regulation or a disposition by the Prime Minister based on a law or regulation; or
  - (ii) in light of the state of its business or assets, it is likely to become insolvent.
- (3) If the officer of a Designated Parent Company (for a foreign company, this is limited to an officer stationed at its domestic offices; hereinafter the same applies in this paragraph) comes to fall under one of the categories in Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive, or comes to fall under item (i) of the preceding paragraph, the Prime Minister may order the Designated Parent Company to dismiss that officer.

(Supervisory Measures Corresponding with the Soundness of Management)

Article 57-21 (1) If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors in light of the Soundness of Management of a highest Designated Parent Company and its Subsidiary Corporations, etc., the Prime Minister, within the scope of this necessity, may issue orders to the highest Designated Parent Company with regard to matters that are necessary from a supervisor perspective.

- (2) If the Prime Minister issues an order under the provisions of the preceding paragraph to a highest Designated Parent Company, and the Soundness of Management of the highest Designated Parent Company and its Subsidiary Corporation, etc. does not improve and is found to have no prospect of improving as of the day on which three months have elapsed since the day of the order, the Prime Minister may order the highest Designated Parent Company to take measures so that it will cease to be the Parent Company of the Subject Special Financial Services Provider or to take other necessary measures, within a fixed period of no longer than three months.
- (3) An order under the provisions of the preceding two paragraphs is to be given so as to correspond with the classification of the Soundness of Management of the highest Designated Parent Company and its Subsidiary Corporations, etc., and the Prime Minister must determine such classifications and the nature of the corresponding orders in advance and make public notice of the same .
- (4) If the Prime Minister issues an order under the provision of paragraph (1) to a highest Designated Parent Company and finds it to be particularly necessary in light of the execution status of measures under that order, the Prime Minister may order the Subject Special Financial Services Provider to take any measures that are necessary from a supervisory perspective.

(Public Notice of Supervisory Measures)

Article 57-22 In the cases set forth as follows, the Prime Minister shall make a public notice indicating as follows, pursuant to the provisions of Cabinet Office Ordinance:

- (i) the Prime Minister orders measures to be taken pursuant to the provisions of Article 57-20, paragraph (1);
- (ii) the Prime Minister orders measures to be taken pursuant to the provisions of Article 57-20, paragraph (2), or orders the suspension of all or a part of business activities; or
- (iii) the Prime Minister orders measures to be taken pursuant to the provisions of paragraph (2) of the preceding Article.

(Collection of Reports and Inspections)

Article 57-23 Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a Designated Parent Company, a person that conducts transactions with a Designated Parent Company, the Subsidiary Company, etc. of a Designated Parent Company (meaning a Subsidiary Company, etc. provided for in Article 57-10, paragraph (2); hereinafter the same applies in this Article), or the person that a Designated Parent Company has entrusted with its business, to submit reports or materials that should serve as a reference with regard to the business or assets of the Subject Special Financial Services Provider or the Designated Parent Company (but may only order a Subsidiary Company, etc. to submit reports or materials that should serve as a reference in connection with the assets of the Subject Special Financial Services Provider or the Designated Parent Company), and may have the relevant officials inspect the state of the business or assets, documents, and other objects of a Designated Parent Company, a Subsidiary Company, etc., or the person that a Designated Parent Company has entrusted with its business (but may only have the relevant officials inspect a Subsidiary Company, etc. as is necessary in connection with the assets of the Subject Special Financial Services Provider or the Designated Parent Company, and may only have the relevant officials inspect the person that a Designated Parent Company has entrusted with its business as is necessary in connection with the business or assets of the Subject Special Financial Services Provider or the Designated Parent Company).

(Hearings)

Article 57-24 (1) Irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, before seeking to issue a disposition based on the provisions of

Article 57-19, Article 57-20, paragraph (1) or (2) or Article 57-21, paragraph (1), (2) or (4), the Prime Minister must conduct a hearing.

(2) If the Prime Minister decides to issue a disposition based on the provisions of Article 57-19; Article 57-20; or Article 57-21, paragraph (1), (2), or (4), the Prime Minister must notify the Designated Parent Company or the Subject Special Financial Services Provider of this in writing.

(Exclusion from Application)

Article 57-25 The provisions of Articles 57-3 to 57-7 inclusive; Article 57-8, paragraph (1); Article 57-9; and Article 57-11 do not apply to a Subject Special Financial Services Provider.

### **Subsection 3 Miscellaneous Provisions**

(Measures concerning the Major Shareholders of a Designated Parent Company)

Article 57-26 (1) The provisions of Article 32, paragraphs (1) and (2); Article 32-2, paragraph (1); and Article 32-3, paragraph (1) apply mutatis mutandis to the Shareholders and equity investors of a Designated Parent Company.

(2) Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order the Major Shareholder of a Designated Parent Company (meaning a Major Shareholder as prescribed in Article 29-4, paragraph (2); hereinafter the same applies in this paragraph) to submit reports or materials that should serve as reference with regard to a notification or measures under Article 32, paragraph (1) or (2); Article 32-2, paragraph (1); or Article 32-3, paragraph (1) as applied mutatis mutandis pursuant to the provisions of the preceding paragraph, or with regard to the business or assets of the Subject Special Financial Services Provider or the Designated Parent Company, or may have the relevant officials inspect documents or other articles of such a Major Shareholder (but only as is necessary in connection with the notification or measures under Article 32, paragraph (1) or (2); Article 32-2, paragraph (1); or Article 32-3, paragraph (1) as applied mutatis mutandis pursuant to the provisions of the preceding paragraph or in connection with the business or assets of the Subject Special Financial Services Provider or the Designated Parent Company).

(Technical Replacement of Terms for the Application of the Provisions of This Act to a Foreign Company)

Article 57-27 The technical replacement of the terms for the application of the provisions of this Act to the Parent Company of a Special Financial Services Provider that is a foreign company and necessary particulars otherwise

relevant to the application of the provisions of this Act to such a foreign company are specified by Cabinet Order.

## **Section 5 Special Provisions for Foreign Persons or Firms**

### **Subsection 1 Foreign Securities Services Provider**

(Definitions)

Article 58 The term "Foreign Securities Services Provider" as used in this Section means a person other than a Financial Services Provider, bank, Cooperative Financial Institution, or financial institution specified by Cabinet Order, which is governed by foreign laws and regulations, and which engages in Securities Services in a foreign state.

(Services in Which a Foreign Securities Services Provider May Engage)

Article 58-2 A Foreign Securities Services Provider must not perform any act set forth in the items of Article 28, paragraph (8) with a person in Japan as the counterparty; provided, however, that this does not apply if a Foreign Securities Services Provider performs such an act with a Financial Services Provider engaged in Securities Services as the counterparty, or if it does so in a case that is specified by Cabinet Order.

### **Subsection 2 Permission for Some Underwriting Activities**

(Permission for Some Underwriting Activities)

- Article 59 (1) Notwithstanding the provisions of Article 29 and the preceding Article, with the permission of the Prime Minister, a Foreign Securities Services Provider may participate in an Underwriting Contract (meaning an Underwriting Contract as prescribed in Article 21, paragraph (4); hereinafter the same applies in paragraph (1), item (vi), sub-item (f) of the following Article) and perform other acts specified by Cabinet Order in Japan, as a part of the underwriting of Securities that it carries out (hereinafter collectively referred to as the "Underwriting" in this Section).
- (2) The Prime Minister may attach conditions to the permission referred to in the preceding paragraph.
- (3) The conditions referred to in the preceding paragraph must constitute the minimum level of conditions that are necessary for the public interest and the protection of investors.
- (4) If the Prime Minister decides to attach conditions pursuant to the provisions of paragraph (2), the Prime Minister must notify the applicant for permission of this in writing.

(Application for Permission for Some Underwriting Activities)

Article 59-2 (1) A person seeking to obtain the permission referred to in paragraph (1) of the preceding Article must submit a written application for permission to the Prime Minister, in which the person states the following particulars (if the applicant for permission is an individual, the particulars set forth in items (iii) and (iv) are excluded):

(i) its trade name or name;

(ii) the location of its head office or principal office;

(iii) the amount of stated capital or the total amount of contributions;

(iv) the title and the name of the officer that has the authority of representation;

(v) the name, and the address, residence, or other contact address in Japan, of the person that will perform the activities to which the application pertains;

(vi) the following particulars, as scheduled, of the Securities that are connected with the activities to which the application pertains:

(a) the Issuer or holder;

(b) the class;

(c) the volume and amount;

(d) the issuance or sales location;

(e) the date of issuance or sale;

(f) the other Financial Services Provider managing the Underwriting (meaning the Financial Services Provider that holds discussions with the Issuer or holder of the Securities in order to fix the contents of the Underwriting Contract, when an Underwriting Contract is being concluded); and

(vii) the amount that the applicant for permission seeks to underwrite.

(2) The calculation of the amount of stated capital or the total amount of contributions as prescribed in item (iii) of the preceding paragraph is specified by Cabinet Order.

(3) The following documents must accompany the written application for permission referred to in paragraph (1); provided, however, that if a document provided for in item (i) or (iv) has the same content as an accompanying document submitted within the one year prior to the date on which the written application for permission provided for in paragraph (1) is submitted, a document stating the submission date of said document and indicating that reference should be made to said document may be used:

(i) a document giving the business outline;

(ii) a document summarizing Underwriting in the most recent one-year period;

(iii) a document in which the officer that has the authority of representation pledges that the applicant does not fall under the purview of Article 59-4, paragraph (1), item (i) or (ii), and that no officer falls under any of the

- categories in Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive (if the applicant for permission is an individual, a document in which the individual pledges that said individual does not fall under the purview of Article 59-4, paragraph (1), item (i) or (ii) or under any of the categories in Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive); and
- (iv) the balance sheet and profit and loss statement for each business year ending in the most recent one-year period.

(Examination Criteria for Permission for Some Underwriting Activities)

Article 59-3 Before seeking to grant the permission referred to in Article 59, paragraph (1), the Prime Minister shall examine whether there is compliance with the following criteria:

- (i) the applicant has been continuously engaged in the same type of business in a foreign state as the business for which it seeks to obtain permission, for a period longer than the period specified by Cabinet Order;
- (ii) the applicant is a corporation whose stated capital or total contributions are not less than the amount specified by Cabinet Order as the amount necessary and appropriate in the public interest or for the protection of investors in light of the mode of business for which the applicant seeks to obtain permission; and
- (iii) the net assets provided for in Article 29-4, paragraph (1), item (v), sub-item (b) are not less than the amount specified by Cabinet Order as provided for in the preceding item.

(Requirement to Refuse Permission for Some Underwriting Activities)

Article 59-4 (1) The Prime Minister must refuse permission if an applicant for permission falls under one of the following items, or if the written application for permission or an accompanying document contains a false statement or omits a statement of material fact:

- (i) the applicant is a person that has had the registration referred to in Article 29 rescinded pursuant to the provisions of Article 53, paragraph (3); that has had the permission referred to in Article 59, paragraph (1) rescinded pursuant to the provisions of paragraph (1) of the following Article; that has had the registration referred to in Article 66 rescinded pursuant to the provisions of Article 66-20, paragraph (1); that has had the registration referred to in Article 66-27 rescinded pursuant to Article 66-42, paragraph (1); or that had obtained a registration of the same kind as the registration referred to in Article 29, Article 66, or Article 66-27 in the state where its head office is located (including permission or any other administrative disposition similar to such a registration), but that has had that registration

- rescinded pursuant to a foreign law or regulation that is equivalent to this Act; and five years have yet to pass since the day of the rescission;
- (ii) the applicant has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of this Act; the Act on Investment Trusts and Investment Corporations; the Commodity Futures Act; the Act Regulating Business Involving Commodity Investment; the Money Lending Business Act; or the Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates; or for violating the provisions of a foreign law or regulation that is equivalent to one of these Acts, and five years have yet to pass since the day on which the applicant finished serving the sentence or ceased to be subject to its enforcement; and
  - (iii) the applicant is a corporation that has a person falling under the category of one of the persons set forth in Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive, as an officer (including a person that is found to have at least the same amount of authority as an officer over the corporation, irrespective of title; hereinafter the same applies in paragraph (1), item (iii) of the following Article, Article 60-3, paragraph (1) and Article 60-8, paragraph (2)) or domestic representative (meaning the representative in Japan of a Foreign Securities Services Provider prescribed in Article 817, paragraph (1) of the Companies Act; hereinafter the same applies in this Section).
- (2) Before seeking to refuse the permission referred to in Article 59, paragraph (1), the Prime Minister must notify the applicant for permission and have the relevant officials conduct a hearing regarding the applicant for permission.
- (3) Upon deciding to grant or not to grant the permission referred to in Article 59, paragraph (1), the Prime Minister must notify the applicant for permission of this in writing.

(Rescission of Permission for Some Underwriting Activities)

Article 59-5 (1) If a Foreign Securities Services Provider that obtains the permission referred to in Article 59, paragraph (1) falls under one of the following items, the Prime Minister may rescind its permission:

- (i) the Foreign Securities Services Provider comes to fall under paragraph (1), item (i) or (ii) of the preceding Article;
- (ii) the Foreign Securities Services Provider violates a law or regulation (including a foreign law or regulation) or a disposition by a government agency which is based on a law or regulation, or violates a condition attached to its permission or to the registration, etc. it has obtained in the state where its head office is located (meaning a registration of the same kind as the registration referred to in Article 29 (including permission or any other

- administrative disposition similar to such a registration); hereinafter the same applies in Article 60-3, paragraph (1), item (i), sub-items (b) and (g)), and rescinding its permission is found to be necessary and appropriate in the public interest or for the protection of investors; or
- (iii) the officer or the domestic representative of the Foreign Securities Services Provider (or, if the Foreign Securities Services Provider is an individual, that individual) comes to fall under one of the categories of persons set forth in Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive, or has acted as set forth in the preceding item, and it is found to be likely that the activities subject to the permission will not be performed fairly.
- (2) Before seeking to rescind the permission referred to in Article 59, paragraph (1) pursuant to the provisions of the preceding paragraph, the Prime Minister must notify the Foreign Securities Services Provider of this in writing.
- (3) If the Prime Minister rescinds the permission referred to in Article 59, paragraph (1) pursuant to the provisions of paragraph (1), the Prime Minister must make a public notice of this, pursuant to the provisions of Cabinet Office Ordinance.

(Regulation of Underwriting)

Article 59-6 The provisions of Article 36, paragraph (1); Article 36-3; Article 36-4, paragraph (1); Article 38 (limited to the part that involves items (i) to (iii) inclusive and (vii)); and Article 44-4 apply mutatis mutandis to the Underwriting of the Foreign Securities Services Provider that has obtained the permission referred to in Article 59, paragraph (1).

**Subsection 3 Permission for On-Exchange Transaction Services**

(Permission for On-Exchange Transaction Services)

- Article 60 (1) Notwithstanding the provisions of Article 29 and Article 58-2, with the permission of the Prime Minister, a Foreign Securities Services Provider may engage in the purchase and sale of Securities and Market Transactions of Derivatives on a Financial Instruments Exchange (including if said Foreign Securities Services Provider conducts these transactions on behalf of a person that provides Brokerage for Clearing of Securities, etc. (limited to brokerage to which Article 2, paragraph (27), item (i) pertains; hereinafter the same applies in this paragraph) as an entruster of Brokerage for Clearing of Securities, etc.; such a transaction is hereinafter collectively referred to as an "On-Exchange Transaction") in the course of trade (hereinafter referred to as the "On-Exchange Transaction Services" in this Subsection)
- (2) The Prime Minister may attach conditions to the permission referred to in the preceding paragraph.

- (3) The conditions referred to in the preceding paragraph must constitute the minimum level of conditions that are necessary in the public interest and for the protection of investors.
- (4) If the Prime Minister decides to attach the conditions referred to in the provisions of paragraph (2), the Prime Minister must notify the applicant for permission of this in writing.

(Application for Permission for On-Exchange Transaction Services)

- Article 60-2 (1) A person seeking to obtain the permission referred to in paragraph (1) of the preceding Article must designate a domestic representative and submit a written application for permission to the Prime Minister, in which the person states the following particulars:
- (i) its trade name and the location of its head office;
  - (ii) the amount of stated capital;
  - (iii) the title and name of the officer (including a representative person in the state where the business offices or offices for On-Exchange Transaction Services are located (excluding the state where its head office is located) (hereinafter referred to as the "On-Exchange Transaction Office"; such a representative is hereinafter referred to as the "Representative in the State Where the On-Exchange Transaction Office is Located" in paragraph (1), item (i), sub-item (j) of the following Article));
  - (iv) the name of the On-Exchange Transaction Office and the state and place where it is located;
  - (v) if the person engages in other business, the business type;
  - (vi) the trade name or name of the foreign Financial Instruments trading market operator of which the head office and the On-Exchange Transaction Office are members (meaning the person that operates that foreign Financial Instruments trading market; hereinafter the same applies in paragraph (1), item (i), sub-item (d) and item (iii) of the following Article);
  - (vii) the location of its domestic offices and other facilities, if any;
  - (viii) the name and domestic address of the domestic representative;
  - (ix) the trade name or name of the Financial Instruments Exchange in which the applicant would become a Trading Participant; and
  - (x) other particulars specified by Cabinet Office Ordinance.
- (2) The calculation of the amount of stated capital provided for in item (ii) of the preceding paragraph is specified by Cabinet Order.
  - (3) The following documents must accompany the written application for permission referred to in paragraph (1):
    - (i) a document pledging that the applicant does not fall under the purview of paragraph (1), item (i), sub-items (a) to (h) inclusive, or sub-item (j) of the following Article;

- (ii) a document stating the things specified by Cabinet Office Ordinance as constituting the business outline and business methods for On-Exchange Transaction Services at the On-Exchange Transaction Office;
- (iii) the articles of incorporation and the certificate of registered information of the applicant for permission (including any document equivalent to these), and a document giving its business outline and stating its business methods;
- (iv) the certificate of registered information in Japan of the applicant for permission;
- (v) the balance sheets and profit and loss statements for each business year ending during the latest three years; and
- (vi) other documents specified by Cabinet Office Ordinance.

(Requirement to Refuse Permission for On-Exchange Transaction Services)

Article 60-3 (1) The Prime Minister must refuse permission if the application for permission referred to in the provisions of paragraph (1) of the preceding Article falls under one of the following items:

- (i) the applicant for permission falls under one of the following:
  - (a) it is not a corporation of the same type as a company with board of directors;
  - (b) it has not obtained registration, etc. in the state where its head office is located or in any state in which its On-Exchange Transaction Offices are located;
  - (c) it has not continuously conducted business that involves the same type of transactions as the On-Exchange Transaction in any of its On-Exchange Transaction Offices, for at least the period specified by Cabinet Order (unless this falls under a case specified by Cabinet Order);
  - (d) none of its On-Exchange Transaction Offices is the member of a foreign Financial Instruments trading market operator (limited one that has obtained the same kind of license as the license referred to in Article 80, paragraph (1), or a permission or other administrative disposition similar to this, in the relevant state; hereinafter the same applies in item (iii)) in a state where those On-Exchange Transaction Offices are located;
  - (e) it is a corporation whose stated capital as provided for in paragraph (1), item (ii) of the preceding Article is less than the amount that is specified by Cabinet Order as being necessary and appropriate in the public interest or for the protection of investors;
  - (f) it is a corporation whose net assets are less than the amount prescribed in sub-item (e);
  - (g) it has had the registration referred to in Article 29 or Article 33-2 rescinded pursuant to the provisions of Article 52, paragraph (1) or 52-2, paragraph (1); has had the permission referred to in Article 60, paragraph

- (1) rescinded pursuant to the provisions of Article 60-8, paragraph (1); has had the registration referred to in Article 66 rescinded pursuant to the provisions of Article 66-20, paragraph (1); has had the registration referred to in Article 66-27 rescinded pursuant to the provisions of Article 66-42, paragraph (1); or it had obtained registration, etc. in the state where its head office or an On-Exchange Transaction Office is located, but has had that registration, etc. rescinded pursuant to a foreign law or regulation that is equivalent to this Act; and five years have yet to pass since the date of rescission;
- (h) it has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of one of the Acts prescribed in Article 59-4, paragraph (1), item (ii) or for violating the provisions of a foreign law or regulation that is equivalent to one of such Acts, and five years have yet to pass since the day on which it finished serving the sentence or ceased to be subject to its enforcement;
- (i) its other business is found to be contrary to the public interest;
- (j) it is a corporation whose officer, Representative in the State Where the On-Exchange Transaction Office is Located, or domestic representative falls under one of the categories set forth in of Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive; or
- (k) it does not have the sufficient personnel structure to perform On-Exchange Transaction Services in an appropriate manner.
- (ii) the Foreign Regulatory Authority for Financial Instruments provided for in Article 189, paragraph (1), in the state where the head office or one of the On-Exchange Transaction Offices of the applicant for permission is located has not given the assurance prescribed in Article 189, paragraph (2), item (i);
- (iii) the foreign Financial Instruments trading market operator of which the On-Exchange Transaction Office of the applicant for permission is a member and the Financial Instruments Exchange in which the applicant for permission would become a Trading Participant have not concluded any agreement concerning the provision of information, and no other measures are in place for the Financial Instruments Exchange to exercise the authority accorded to it under this Act, an order issued based on this Act, or its articles of incorporation or other rules; or
- (iv) the application for permission or an accompanying document includes a false statement or omits a statement of material fact.
- (2) Before seeking to refuse the permission referred to in Article 60, paragraph (1), the Prime Minister must notify the applicant for permission and have the relevant officials conduct a hearing regarding the applicant for permission.
- (3) Upon deciding to grant or not to grant the permission referred to in Article 60, paragraph (1), the Prime Minister must notify the applicant for permission of

this in writing.

(Acting Representatives)

Article 60-4 (1) If there is a position vacancy for the domestic representative of a Foreign Securities Services Provider that has obtained the permission referred to in Article 60, paragraph (1) (hereinafter referred to as an "Authorized Operator for On-Exchange Transactions"), and the Prime Minister finds it to be necessary, the Prime Minister may appoint a person to temporarily perform the duties of the domestic representative (referred to as the "Acting Representative" in the following paragraph). In such a case, the Authorized Operator for On-Exchange Transactions must register that person in connection with the domicile of the domestic representative from before the position of domestic representative became vacant.

(2) If the Prime Minister appoints an Acting Representative pursuant to the provisions of the preceding paragraph, the Prime Minister may order the Authorized Operator for On-Exchange Transactions to pay a reasonable amount of remuneration to the Acting Representative.

(Notification of a Change to Basic Particulars)

Article 60-5 (1) If the particulars set forth in one of the items of Article 60-2, paragraph (1) changes, the Authorized Operator for On-Exchange Transactions must notify the Prime Minister of this within two weeks from the day of the change.

(2) If the business outline or business methods for On-Exchange Transaction Services which an Authorized Operator for On-Exchange Transactions has stated in a document set forth in Article 60-2, paragraph (3), item (ii) change, or in any other case specified by Cabinet Office Ordinance, the Authorized Operator for On-Exchange Transactions must notify the Prime Minister of this without delay, pursuant to the provisions of Cabinet Office Ordinance.

(Business Reports)

Article 60-6 The provisions of Article 46-2, Article 46-3, and Article 49-3 apply mutatis mutandis to the On-Exchange Transaction Services of an Authorized Operator for On-Exchange Transactions. In this case, in Article 46-3, paragraph (1), the phrase "within three months" is deemed to be replaced with "within the period specified by Cabinet Order".

(Validity of Permission If an Authorized Operator for On-Exchange Transactions Is Dissolved)

Article 60-7 If an Authorized Operator for On-Exchange Transactions is dissolved, or if On-Exchange Transaction Services are discontinued, the

permission under Article 60, paragraph (1) ceases to be valid. In such a case, the domestic representative or the former domestic representative must notify the Prime Minister of this within 30 days from the day in question .

(Supervisory Measures for Authorized Operators for On-Exchange Transactions)

- Article 60-8 (1) If an Authorized Operator for On-Exchange Transactions falls under one of the following items, the Prime Minister may rescind the Article 60, paragraph (1) permission of the Authorized Operator for On-Exchange Transactions, order the suspension of all or a part of On-Exchange Transaction Services during a fixed period of no longer than six months, order a change of business methods for On-Exchange Transaction Services, or issue orders with respect to matters that are otherwise necessary from a supervisory perspective:
- (i) it comes to fall under Article 60-3, paragraph (1), item (i) (excluding sub-items (c) and (j)), or item (ii) or (iii);
  - (ii) it obtains the permission referred to in Article 60, paragraph (1) by wrongful means;
  - (iii) it violates a law or regulation (including a foreign law or regulation) or a disposition by a government agency which is based on a law or regulation, in connection with its On-Exchange Transaction Services or any services incidental to them (excluding if it violates the provisions of Article 46-6, paragraph (2));
  - (iv) in light of the state of its business or assets, it is likely to become insolvent; or
  - (v) it violates the conditions attached to the permission referred to in Article 60, paragraph (1).
- (2) If the domestic representative of an Authorized Operator for On-Exchange Transactions (if the Authorized Operator for On-Exchange Transactions has a domestic office or other facilities, this includes any officer stationed there) comes to fall under one of the categories set forth in Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive, or engages in conduct that falls under item (iii) or (v) of the preceding paragraph, the Prime Minister may order the Authorized Operator for On-Exchange Transactions to dismiss or remove that domestic representative.
- (3) If the Prime Minister rescinds the permission referred to in Article 60, paragraph (1) pursuant to the provisions of paragraph (1), or orders the suspension of all or a part of services, the Prime Minister must give public notice of this pursuant to the provisions of Cabinet Office Ordinance.
- (4) If the Prime Minister decides to issue a disposition pursuant to the provisions of paragraph (1) or (2), the Prime Minister must notify the Authorized Operator for On-Exchange Transactions of this in writing.

(5) Irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, before seeking to issue a disposition pursuant to the provisions of paragraph (1) or (2), the Prime Minister must conduct a hearing.

(Rescission of Permission If On-Exchange Transaction Services Are Suspended)

Article 60-9 (1) If, without legitimate grounds for doing so, an Authorized Operator for On-Exchange Transactions does not commence business within three months of the day on which it is permitted to begin engaging in On-Exchange Transaction Services, or suspends business for three months or more continually, the Prime Minister may rescind the Article 60, paragraph (1) permission of that Authorized Operator for On-Exchange Transactions.

(2) If the Prime Minister decides to issue a disposition based on the provisions of the preceding paragraph, the Prime Minister must notify the Authorized Operator for On-Exchange Transactions of this in writing.

(Completion of Remaining Business)

Article 60-10 If an Authorized Operator for On-Exchange Transactions is dissolved or On-Exchange Transaction Services are discontinued, the Authorized Operator for On-Exchange Transactions is deemed to still have Article 60, paragraph (1) permission, inasmuch as the task of completing On-Exchange Transactions is concerned.

(Orders to Submit Reports and Inspections)

Article 60-11 Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order an Authorized Operator for On-Exchange Transactions, a person that conducts transactions with an Authorized Operator for On-Exchange Transactions, or the person that an Authorized Operator for On-Exchange Transactions has entrusted with its business, to submit reports or materials that should serve as a reference with regard to the On-Exchange Transaction Services or assets of that Authorized Operator for On-Exchange Transactions, and may have the relevant officials inspect the state of On-Exchange Transaction Services by an Authorized Operator for On-Exchange Transactions, the state of its assets, or its books and documents or any other articles (but may only have the relevant officials inspect the person that an Authorized Operator for On-Exchange Transactions has entrusted with its business as is necessary in connection with the state of the business or assets of the Authorized Operator for On-Exchange Transactions).

(The Court's Request for an Investigation)

Article 60-12 (1) In liquidation proceedings, bankruptcy proceedings, rehabilitation proceedings, reorganization proceedings, or recognition and assistance proceedings in Japan for an Authorized Operator for On-Exchange Transactions (including one that is deemed to have been granted the permission referred to in Article 60, paragraph (1), as prescribed in Article 60-10), the court may request the opinion of, or an inspection or investigation by, the Prime Minister.

(2) If the Prime Minister finds it to be necessary, the Prime Minister may state an opinion to the court during the proceedings prescribed in the preceding paragraph.

(3) The provisions of the preceding Article apply mutatis mutandis if the Prime Minister receives an inspection or investigation request from the court pursuant to the provisions of paragraph (1).

(Regulation of On-Exchange Transaction Services)

Article 60-13 The provisions of Article 36, paragraph (1); Article 36-3; Article 38 (limited to the part that involves item (vii)); and Article 40 (limited to the part that involves item (ii)) apply mutatis mutandis to the On-Exchange Transaction Services of an Authorized Operator for On-Exchange Transactions.

#### **Subsection 4 Persons Engaging in Investment Advisory Services or Investment Management in a Foreign State**

Article 61 (1) Notwithstanding the provisions of Article 29, a corporation incorporated based on foreign laws and regulations or an individual domiciled in a foreign state and engaged in Investment Advisory Services in a foreign state (other than one with Article 29 registration) may engage in Investment Advisory Services, but only with a Financial Services Provider that is engaged in Investment Management or a person specified by Cabinet Order as the counterparty.

(2) Notwithstanding the provisions of Article 29, a corporation incorporated based on foreign laws and regulations and engaged in Investment Management in a foreign state (limited to the business of performing the act set forth in Article 2, paragraph (8), item (xii) based on a Discretionary Investment Contract; hereinafter the same applies in this paragraph) (excluding persons with Article 29 registration) may engage in Investment Management, but only with a Financial Services Provider that is engaged in Investment Management or a person specified by Cabinet Order as the counterparty.

(3) Notwithstanding the provisions of Article 29, a corporation incorporated based on foreign laws and regulations and engaged in Investment Management in a foreign state (limited to the business of performing the act set forth in

Article 2, paragraph (8), item (xv)) (excluding persons with Article 29 registration) may engage in Investment Management (limited to the business specified in Article 2, paragraph (8), item (xv)), but only with a Financial Services Provider that is engaged in Investment Management or a person specified by Cabinet Order as the counterparty. In such a case, the provisions of Article 63, paragraph (2) do not apply.

#### **Subsection 5 Establishment of Facilities for Collecting Information**

- Article 62 (1) Before seeking to establish a representative office or any other facility in Japan for the purpose of collecting or providing information on the securities market and the market of financial indicators of Securities, or to conduct other services related to Financial Instruments Business, etc. which are specified by Cabinet Office Ordinance (including before seeking to conduct said business in a facility established for other purposes), a Foreign Securities Services Provider (including a person specified by Cabinet Office Ordinance whose business is closely related to Securities Services; hereinafter the same applies in this Article) or a person that engages in Investment Advisory Services or Investment Management in a foreign state (excluding persons with Article 29 or Article 33-2 registration; hereinafter the same applies in this Article) must notify the Prime Minister of its business outline and the location of that facility, and of any other matters specified by Cabinet Office Ordinance.
- (2) Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a Foreign Securities Services Provider or a person that conducts Investment Advisory Services or Investment Management in a foreign state to submit reports or materials concerning the business set forth in the preceding paragraph.
- (3) If a Foreign Securities Services Provider or a person that conducts Investment Advisory Services or Investment Management in a foreign state discontinues the facility or the services referred to in paragraph (1), or if it changes a matter of which it has provided notification pursuant to the provisions of that paragraph, it must notify the Prime Minister of this without delay.

#### **Section 6 Special Provisions on Specially Permitted Services for Qualified Institutional Investors, etc.**

(Specially Permitted Services for Qualified Institutional Investors, etc.)

Article 63 (1) The provisions of Articles 29 and 33-2 inclusive do not apply to the acts set forth in the following items:

- (i) the Private Placement of rights set forth in Article 2, paragraph (2), item (v) or (vi) with qualified institutional investors, etc. (meaning persons that are not qualified institutional investors but that are specified by Cabinet Order (but only if they are no greater in number than the number specified by Cabinet Order) and qualified institutional investors; hereinafter the same applies in this Article) that do not fall under one of the following categories, as the counterparties (limited to Private Placements specified by Cabinet Order as having little likelihood of allowing persons that are not qualified institutional investors, etc. (that is, qualified institutional investors, etc. that do not fall under one of the following categories) to acquire the relevant rights):
    - (a) a Special Purpose Company (meaning a Special Purpose Company as provided in Article 2, paragraph (3) of the Act on Securitization of Assets) that issues Asset Backed Securities (meaning Asset Backed Securities as provided in Article 2, paragraph (11) of that Act) which have been acquired by persons other than qualified institutional investors;
    - (b) the proprietor of a business or a person seeking to become the proprietor of a business in an Silent Partnership Agreement (meaning an Silent Partnership Agreement as provided in Article 535 of the Commercial Code) that concerns the rights specified in Article 2, paragraph (2), item (v) or (vi) and that has a person other than a qualified institutional investor as a silent partner; and
    - (c) a person that is specified by Cabinet Office Ordinance as being equivalent to a person set forth in sub-item (a) or (b).
  - (ii) the act set forth in Article 2, paragraph (8), item (xv), of investing money (including anything specified by Cabinet Order as being similar to money) that has been invested or contributed by a qualified institutional investor, etc. that holds a right set forth in Article 2, paragraph (2), item (v) or (vi) (limited to rights in an Invested Business (meaning an Invested Business as provided in Article 2, paragraph (2), item (v)) in which qualified institutional investors, etc. are the only holders of those rights (limited to qualified institutional investors, etc. that do not fall under any of the categories in sub-items (a) to (c) inclusive of the preceding item)).
- (2) A person that will engage in specially permitted services for qualified institutional investors, etc. (meaning performing any of the acts set forth in the items of the preceding paragraph in the course of trade; the same applies hereinafter) (excluding Financial Services Providers, etc.) must notify the Prime Minister of the following particulars in advance, pursuant to the provisions of Cabinet Office Ordinance:
- (i) the person's trade name or name;
  - (ii) the amount of stated capital or total amount of contributions, if it is a

- corporation;
- (iii) the names of its officers, if it is a corporation;
  - (iv) if the person has an employee as specified by Cabinet Order, the name of that employee;
  - (v) the business category (meaning which of the acts set forth in the items of the preceding paragraph is the business category of which the person is giving notice);
  - (vi) the name and location of the person's principal business office or principal office;
  - (vii) if the person engages in other business, the business type; and
  - (viii) other particulars specified by Cabinet Office Ordinance.
- (3) If a particular set forth in one of the items of the preceding paragraph changes, the person providing notification based on the preceding paragraph (hereinafter referred to as a "Notifier of Specially Permitted Services") must notify the Prime Minister of this without delay.
- (4) If a Notifier of Specially Permitted Services engages in a specially permitted service for Qualified Institutional Investors, etc. the Notifier of Specially Permitted Services is deemed to be a Financial Services Provider and Articles 38 (limited to the part that involves item (i)) and Article 39, and the provisions of Chapter VIII in connection with these Articles apply.
- (5) If a business activity connected with an act set forth in paragraph (1), item (i) which a Notifier of Specially Permitted Services has commenced as a specially permitted business activity for qualified institutional investors, etc. comes to no longer come under the purview of a specially permitted business activity for qualified institutional investors, etc. (but only if a person that is not a qualified institutional investor, etc. (that is, a qualified institutional investor, etc. that does not fall under one of the categories in paragraph (1), item (i), sub-items (a) to (c) inclusive) comes to hold the right prescribed in paragraph (1), item (ii); the same applies in the following paragraph), the Prime Minister may order the Notifier of Specially Permitted Services to take the necessary measures within a fixed period of no longer than three months.
- (6) If a business activity connected with an act set forth in paragraph (1), item (i) which a Notifier of Specially Permitted Services has commenced as a specially permitted business activity for qualified institutional investors, etc. comes to no longer come under the purview of a specially permitted business activity for qualified institutional investors, etc., the Notifier of Specially Permitted Services must notify the Prime Minister of this without delay.
- (7) If the Prime Minister finds it to be particularly necessary for confirming the business activity status of a Notifier of Specially Permitted Services, the Prime Minister, within the scope of this necessity, may order the Notifier of Specially Permitted Services, a person that conducts transactions with the Notifier of

Specially Permitted Services, or a person that the Notifier of Specially Permitted Services has entrusted with its business, to submit reports or materials that should serve as a reference with regard to a notification under paragraph (2).

- (8) If the Prime Minister finds it to be particularly necessary for confirming the business activity status of a Notifier of Specially Permitted Services in connection with an act set forth in paragraph (1), item (ii), the Prime Minister, within the scope of this necessity, may have the relevant officials enter the business office, office, or other facilities of the Notifier of Specially Permitted Services or of a person that the Notifier of Specially Permitted Services has entrusted with its business, may have those officials inquire about the notification under paragraph (2), and may have those officials inspect documents and other articles of the Notifier of Specially Permitted Services (but only as is necessary in connection with the notification under that paragraph).

(Succession to the Position of a Notifier of Specially Permitted Services)

Article 63-2 (1) If a Notifier of Specially Permitted Services transfers the whole of its business linked with specially permitted services for qualified institutional investors, etc., or is subject to a merger, split (limited to one in which the whole of business is succeeded to), or inheritance, the person to which the whole of business is transferred, the corporation surviving the merger, the corporation incorporated in the merger, or the corporation or heir that succeeds to the whole of business in the split (or, if there are two or more heirs and they reach an agreement in which they decide which of the heirs is to succeed to business, said person) succeeds to the position of a Notifier of Specially Permitted Services, unless that person is a Financial Services Provider, etc.

- (2) A person that succeeds to the position of a Notifier of Specially Permitted Services pursuant to the provisions of the preceding paragraph must notify the Prime Minister of this without delay.
- (3) If a Notifier of Specially Permitted Services comes to fall under one of the following items, it must notify the Prime Minister of this without delay:
- (i) it suspends or resumes specially permitted services for qualified institutional investors, etc.;
  - (ii) it discontinues specially permitted services for qualified institutional investors, etc.; or
  - (iii) it falls under any other case specified by Cabinet Office Ordinance.
- (4) If a Notifier of Specially Permitted Services is a corporation, and that corporation is dissolved for reasons other than a merger, the liquidator (or, if the dissolution is due to an order to commence bankruptcy proceedings, the

bankruptcy trustee) must notify the Prime Minister of this without delay.

(When a Financial Services Provider, etc. Engages in Specially Permitted Businesses for Qualified Institutional Investors, etc.)

Article 63-3 (1) Before a Financial Services Provider, etc. engages in specially permitted services for qualified institutional investors, etc. (excluding one that has Article 29 or Article 33-2 registration for performing an act set forth in the items of Article 63, paragraph (1) in the course of trade), it must notify the Prime Minister of this and of the business category prescribed in Article 63, paragraph (2), item (v), pursuant to the provisions of Cabinet Office Ordinance.

(2) The provisions of Article 63, paragraphs (5) and (6) and paragraph (3) of the preceding Article apply mutatis mutandis to a Financial Services Provider, etc. that makes a notification under the provisions of the preceding paragraph. In this case, in these provisions, the term "Notifier of Specially Permitted Services" is deemed to be replaced with "Financial Services Provider, etc." and any other necessary technical replacement of terms is specified by Cabinet Order.

(3) If a Financial Services Provider, etc. engages in the business set forth in one of the following items, the provisions prescribed in said item do not apply:

- (i) the business of performing the act set forth in Article 63, paragraph (1), item (i): the provisions of Section 2, Subsection 1 (excluding Article 38 (limited to the part that involves item (i)) and Article 39); and
- (ii) the business of performing the act set forth in Article 63, paragraph (1), item (ii): the provisions of Section 2, Subsection 1 (excluding Article 38 (limited to the part that involves item (i)) and Article 39) and Subsection 3.

(Delegation to Cabinet Order)

Article 63-4 Beyond what is provided for in this Section, procedures for notification in connection with specially permitted services for qualified institutional investors, etc. and necessary particulars otherwise relevant to the application of the provisions of this Section are specified by Cabinet Order.

## **Section 7 Sales Representatives**

(Registration of Sales Representatives)

Article 64 (1) A Financial Services Provider, etc. must have a registration made in a sales representatives register that is kept in a location set forth by Cabinet Office Ordinance (hereinafter referred to as the "Register"), bearing the name, birth date, and any other particular specified by Cabinet Office Ordinance, for any solicitor, sales person, agent, or other person among its officers and employees, irrespective of title, that performs the following acts on

its behalf (hereinafter referred to as a "Sales Representative"):

- (i) the following acts involving Securities (excluding rights set forth in the items of Article 2, paragraph (2) that are deemed to be Securities pursuant to the provisions of that paragraph):
    - (a) acts set forth in Article 2, paragraph (8), items (i) to (iii) inclusive, item (v), item (viii), and item (ix); and
    - (b) the following acts:
      - 1. the solicitation of offers in connection with a purchase and sale or in connection with intermediation, brokerage (excluding Brokerage for the Clearing of Securities, etc.), or agency for a purchase and sale;
      - 2. the solicitation of offers in connection with Market Transactions of Derivatives or Foreign Market Transaction of Derivatives, or in connection with intermediation, brokerage (excluding Brokerage for the Clearing of Securities, etc.), or agency for Market Transaction of Derivatives or Foreign Market Transaction of Derivatives; and
      - 3. the solicitation of entrustment with Market Transaction of Derivatives or Foreign Market Transaction of Derivatives.
  - (ii) the following acts:
    - (a) acts set forth in Article 2, paragraph (8), items (iv), (vi), and (x); and
    - (b) solicitation of offers in connection with Over-the-Counter Derivatives Transactions, etc.
  - (iii) beyond what is set forth in the preceding two items, acts specified by Cabinet Order.
- (2) A Financial Services Provider, etc. must not allow a person other than one for which a registration has been made pursuant to the preceding paragraph to perform the duties of a Sales Representative (meaning acts set forth in the items of that paragraph; the same applies hereinafter).
- (3) A Financial Services Provider, etc. seeking to have a registration made pursuant to the provisions of paragraph (1) must submit a written application for registration to the Prime Minister, in which it states the following particulars:
- (i) the trade name or name of the applicant for registration;
  - (ii) the name of its representative, if the applicant for registration is a corporation;
  - (iii) the following particulars of the Sales Representative to which the application for registration pertains:
    - (a) the person's name and birth date;
    - (b) whether the person is an officer or an employee;
    - (c) whether the person has ever performed the duties of a Sales Representative, and if the person has performed the duties of a Sales Representative before, the trade name or name of the Financial Services

- Provider, etc. or Financial Instruments Intermediary of which the person was a part and the period during which the person performed those duties;
- (d) whether the person has ever engaged in Financial Instruments Intermediation, and if the person has engaged in Financial Instruments Intermediation before, the period during which the person engaged in such services; and
- (iv) other particulars specified by Cabinet Office Ordinance.
- (4) The resume of the Sales Representative that the applicant seeks to have registered and other documents specified by Cabinet Office Ordinance must accompany the written application for registration referred to in the preceding paragraph.
- (5) Whenever an application for registration under paragraph (3) is filed, unless the Prime Minister refuses the registration pursuant to the provisions of paragraph (1) of the following Article, the Prime Minister must immediately register the particulars prescribed in paragraph (1) in the Register.
- (6) Upon effecting a registration referred to in paragraph (1), the Prime Minister shall notify the applicant of this in writing.

(Refusal of Registration)

- Article 64-2 (1) If the Sales Representative to which an application for registration pertains falls under one of the following items, or if a written application for registration or an accompanying document includes a false statement or omits a statement of material fact, the Prime Minister must refuse that registration:
- (i) a person set forth in Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive;
- (ii) a person that has had a registration as a Sales Representative rescinded pursuant to the provisions of Article 64-5, paragraph (1), if five years have not yet passed since the date of the rescission;
- (iii) a person registered as being a Sales Representative affiliated with a Financial Services Provider, etc. or Financial Instruments Intermediary other than the applicant for registration; or
- (iv) a person that has been registered pursuant to the provisions of Article 66.
- (2) Before seeking to refuse the registration referred to in paragraph (1) of the preceding Article, the Prime Minister must notify the applicant for registration and have the relevant officials conduct a hearing regarding the applicant for registration.
- (3) If the Prime Minister decides to refuse the registration referred to in paragraph (1) of the preceding Article, the Prime Minister must notify the applicant for registration of this in writing.

(Authority of a Sales Representative)

- Article 64-3 (1) A Sales Representative is deemed to have the authority to perform any extra-judicial act in connection with the acts set forth in the items of Article 64, paragraph (1) on behalf of the Financial Services Provider, etc. to which the Sales Representative is affiliated.
- (2) The provisions of the preceding paragraph do not apply if the other party has acted in bad faith.

(Notification of a Change to Registered Information)

- Article 64-4 If a fact falling under one of the following items occurs with regard to a Sales Representative that a Financial Services Provider, etc. has had registered pursuant to the provisions of Article 64, paragraph (1), it must notify the Prime Minister of this without delay:
- (i) a particular set forth in Article 64, paragraph (3), item (iii), sub-item (a) or (b) changes;
  - (ii) the person comes to fall under any of Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive; or
  - (iii) the person stops performing the duties of a Sales Representative due to having left the position or for other reasons.

(Supervisory Measures for Sales Representatives)

- Article 64-5 (1) If a registered Sales Representative falls under one of the following items, the Prime Minister may rescind the registration or order a suspension of duties during a fixed period of no longer than two years:
- (i) the person comes to fall under one of the categories in Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive, or is discovered to have fallen under one of the items of Article 64-2, paragraph (1) at the time of registration;
  - (ii) the person violates a law or regulation in connection with business involving the undertaking of any act set forth in the items of Article 64, paragraph (1) (or in connection with the services of a registered financial institution, if it is a registered financial institution) or services incidental thereto within the Financial Instruments Business, or the person is otherwise found to have committed an extremely inappropriate act in the course of duties as a Sales Representative; or
  - (iii) the person has had a registration rescinded pursuant to the provisions of item (iii) of the following Article during the last five years, and an act that the person performed during the period while the registration was in effect (limited to acts during the last five years) is discovered to have fallen under the preceding item.
- (2) Irrespective of the category of proceeding for hearing statements of opinion

under Article 13, paragraph (1) of the Administrative Procedure Act, before seeking to issue a disposition pursuant to the provisions of the preceding paragraph, the Prime Minister must conduct a hearing.

- (3) If the Prime Minister decides to issue a disposition based on the provisions of paragraph (1), the Prime Minister must notify the applicant for registration of this in writing.

(Deletion of Registrations)

Article 64-6 In the following cases, the Prime Minister deletes the registration of a Sales Representative from the Register:

- (i) the Prime Minister rescinds the registration of the Sales Representative pursuant to the provisions of paragraph (1) of the preceding Article;
- (ii) the Financial Services Provider, etc. with which the Sales Representative is affiliated is dissolved or discontinues the business of performing the acts set forth in the items of Article 64, paragraph (1) (or discontinues the services of a registered financial institution, if it is a registered financial institution) within the Financial Instruments Business;
- (iii) it is confirmed that the person has stopped performing the duties of a Sales Representative due to having left the position or for other reasons; and
- (iv) beyond what is set forth in the preceding three items, when so specified by Cabinet Office Ordinance.

(Delegation of Registration Work)

Article 64-7 (1) The Prime Minister may have an association (meaning an Authorized Financial Instruments Business Association or Certified Financial Instruments Business Association as prescribed in Article 78, paragraph (2); hereinafter the same applies in this Section) do the work involved in the registration prescribed in Article 64, Article 64-2, and the preceding three Articles (hereinafter referred to as "Registration Work" in this Article and Article 64-9) in connection with the Sales Representative of a Financial Services Provider, etc. belonging to that association, pursuant to the provisions of Cabinet Office Ordinance.

- (2) The Prime Minister may designate one association and have it do the Registration Work (excluding the work to which Article 64-5 pertains) in connection with the Sales Representative of a Financial Services Provider, etc. that does not belong to an association, pursuant to the provisions of Cabinet Office Ordinance.
- (3) If the Prime Minister decides to have an association do the Registration Work pursuant to the provisions of the preceding two paragraphs, the Prime Minister is not to conduct that Registration Work.
- (4) If an association decides to do the Registration Work pursuant to the

provisions of paragraph (1) or (2), it must specify the particulars of its registration of Sales Representatives in its articles of incorporation and obtain the authorization of the Prime Minister.

- (5) If an association that does Registration Work pursuant to the provisions of paragraph (1) or (2) makes a registration under Article 64, paragraph (5), makes a change to a registration in connection with a notification under Article 64-4, reaches a disposition under Article 64-5, paragraph (1) (excluding the deletion of a registration), or deletes a registration as under the preceding Article, it must notify the Prime Minister of this without delay, pursuant to the provisions of Cabinet Office Ordinance.
- (6) If there are two or more associations that do the Registration Work under the provisions of paragraph (1) or (2), each association is to promote information exchange between or among related associations and endeavor to provide the necessary cooperation and information to other associations so as to ensure the appropriate implementation of Registration Work.
- (7) If the Sales Representative of a Financial Services Provider, etc. which belongs to an association that does Registration Work pursuant to the provisions of paragraph (1) falls under one of the categories in Article 64-5, paragraph (1), items (i) to (iii) inclusive but the association does not take a measure prescribed in that paragraph, and the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order the association to take a measure prescribed in that paragraph.
- (8) Irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, before seeking to issue a disposition based on the provisions of the preceding paragraph, the Prime Minister must conduct a hearing.

(Registration Fee)

Article 64-8 (1) A Financial Services Provider, etc. seeking to have a Sales Representative registered must pay a registration fee to the government (if registering with an association pursuant to the provisions of paragraph (1) or (2) of the preceding Article, to the Association) pursuant to the provisions of Cabinet Order.

- (2) The fee set forth in the preceding paragraph and paid to an association is the revenue of said association.

(Requests for Review in Connection with Registration Work)

Article 64-9 A Financial Services Provider, etc. that objects to the inaction of an association that does the Registration Work under Article 64-7, paragraph (1) or (2) in connection with an application for registration under Article 64,

paragraph (3), that objects to such an association's refusal of a registration under Article 64-2, paragraph (1), or that objects to the Article 64-5, paragraph (1) disposition of an association that does the Registration Work under Article 64-7, paragraph (1), may file a request for review with the Prime Minister, pursuant to the Administrative Appeals Act (Act No. 160 of 1962).

## **Section 8 Miscellaneous Provisions**

(Acting Representatives)

Article 65 (1) If there is a position vacancy for the domestic representative of a Financial Services Provider, etc. (limited to a foreign corporation; hereinafter the same applies in this Article), and the Prime Minister finds it to be necessary, the Prime Minister may appoint a person to temporarily perform the duties of the domestic representative (referred to as an "Acting Representative" in the following paragraph). If this is the case, the Financial Services Provider, etc. must register the appointment in connection with the location of the principal business office or principal office in Japan.

(2) If the Prime Minister appoints an Acting Representative pursuant to the provisions of the preceding paragraph, the Prime Minister may order the Financial Services Provider, etc. to pay the Acting Representative a reasonable amount of remuneration.

(Technical Replacement of Terms in the Application of Provisions of This Act to Foreign Corporations)

Article 65-2 If a Financial Services Provider, etc. is a foreign corporation or an individual domiciled in a foreign state, the technical replacement of the terms in the application of the provisions of this Act and necessary particulars otherwise relevant in the application of the provisions of this Act to the foreign corporation or individual are specified by Cabinet Order.

(The Court's Request for an Investigation)

Article 65-3 (1) In liquidation proceedings, bankruptcy proceedings, rehabilitation proceedings, reorganization proceedings, or recognition and assistance proceedings for a Financial Services Provider (including those that is deemed as a Financial Services Provider under the provision of Article 56, paragraph (1) or Article 57-9), the court may request the opinion of, or an inspection or investigation by, the Prime Minister.

(2) If the Prime Minister finds it to be necessary, the Prime Minister may state an opinion to the court during the proceedings prescribed in the preceding paragraph.

(3) The provisions of Article 56-2, paragraph (1) apply mutatis mutandis if the

Prime Minister receives an inspection or investigation request from the court pursuant to the provisions of paragraph (1).

(Delegation to Cabinet Office Ordinance)

Article 65-4 Beyond what is provided for in Article 34-5 and Article 63-4, procedures for the implementation of the provisions of Article 29 to the preceding Article inclusive and particulars that are otherwise necessary for their implementation are specified by Cabinet Office Ordinance.

(Exclusion from Application)

Article 65-5 (1) Notwithstanding the provisions of Article 29, a trust company (excluding a management-type trust company as prescribed in Article 2, paragraph (4) of the Trust Business Act; the same applies in the following paragraph and paragraph (5)), a foreign trust company (excluding a management-type foreign trust company as prescribed in Article 2, paragraph (7) of that Act; the same applies in the following paragraph and paragraph (5)), or a person registered as referred to in Article 50-2, paragraph (1) of that Act may perform the following acts in the course of its business in connection with the rights set forth in Article 2, paragraph (2), item (i) or (ii) (referred to as the "Purchase and Sale, etc. of a Beneficial Interest in a Trust" in the following paragraph):

(i) a purchase and sale (except one that falls under the category of a Derivatives Transaction), or agency or intermediation for a purchase and sale; and

(ii) the acts set forth in Article 2, paragraph (8), item (viii) or (ix).

(2) If a trust company, a foreign trust company, or a person registered as referred to in Article 50-2, paragraph (1) of the Trust Business Act makes a Purchase and Sale, etc. of a Beneficial Interest in a Trust in the course of its business pursuant to the provisions of the preceding paragraph, it is deemed to be a Financial Services Provider, and the provisions of Articles 34 to 34-5 inclusive; Article 36, paragraph (1); Article 36-2, paragraph (1) (but only if a person registered as referred to Article 50-2, paragraph (1) of the Trust Business Act makes a Purchase and Sale, etc. of a Beneficial Interest in a Trust in the course of its business); Article 36-3; Article 37 (excluding paragraph (1), item (ii)); Article 37-2; Article 37-3 (excluding paragraph (1), item (ii)); Article 37-4; Article 37-6; Article 38; Article 39; Article 40; Article 40-4; Article 40-5; Article 45, items (i) and (ii); Articles 47 to 47-3 inclusive; Article 51; Article 52, paragraphs (1) and (2); Article 56-2, paragraph (1); Article 190; and Article 194-5, paragraph (2) (including penal provisions connected with these provisions) apply. In this case, in Article 52, paragraph (1), the phrase "any of the following items" is deemed to be replaced with "item (vi) or (ix)" and the

phrase "rescind its Article 29 registration, rescind its Article 30, paragraph (1) authorization, or order the suspension of all or part of its business during a fixed period of no longer than six months" is deemed to be replaced with "order the suspension of all or part of its business during a fixed period of no longer than six months"; and in Article 52, paragraph (2), the phrase "is discovered to have fallen under one of the categories in sub-items (a) to (g) inclusive of that item at the time of the Article 29 registration, or comes to fall under one of the categories in item (vi) or items (viii) to (x) inclusive of the preceding paragraph" is deemed to be replaced with "or comes to fall under one of the categories in item (vi) or (ix) of the preceding paragraph".

- (3) The provisions of Article 29 do not apply if the Japan Housing Finance Agency, Independent Administrative Agency (referred to as the "Agency" in the following paragraph) is sells rights indicated on the Securities set forth in Article 2, paragraph (1), item (xiv) or the Securities set forth in Article 2, paragraph (1), item (xvii) (limited to ones that have the nature of the Securities set forth in item (xiv) of that paragraph) or sells rights set forth in Article 2, paragraph (2), item (i) or (ii), pursuant to Article 22 of the Act on the Japan Housing Finance Agency, Independent Administrative Agency (Act No. 82 of 2005)(referred to as the "Sells a Beneficial Interest in a Trust" in the following paragraph).
- (4) If the Agency Sells a Beneficial Interest in a Trust, the Agency is deemed to be a Financial Services Provider, and the provisions of Articles 34 to 34-5 inclusive; Article 36, paragraph (1); Article 37 (excluding paragraph (1), item (ii)); Article 37-3 (excluding paragraph (1), item (ii)); Article 37-4; Article 37-6; Article 38; Article 39; Article 40; Article 40-4; Article 40-5; and Article 45, items (i) and (ii) (including penal provisions connected with these provisions) apply.
- (5) The provisions of this Chapter do not apply if a trust company, foreign trust company, person registered as referred to in Article 50-2, paragraph (1) of the Trust Business Act, person that has made a notification under Article 51, paragraph (2) of that Act, or person registered as referred to in Article 52, paragraph (1) of that Act performs an act set forth in Article 2, paragraph (8), item (xiv) or (xv) (limited to one that it conducts while holding the money or other assets referred to in these provisions as trust property).

(Respect for the Voluntary Efforts of Financial Services Providers, etc.)

Article 65-6 The Prime Minister, in supervising a Financial Services Provider, etc. or Authorized Exchange Transaction Operator, or in supervising a Foreign Securities Services Provider that has received Article 59, paragraph (1) permission, must give due consideration to respecting the voluntary efforts of the Financial Services Provider, etc., Authorized Operator for On-Exchange

Transactions, or Foreign Securities Services Provider with Article 59, paragraph (1) permission, to run its business.

### **Chapter III-2 Financial Instruments Intermediaries**

#### **Section 1 General Provisions**

(Registration)

Article 66 Notwithstanding the provisions of Article 29, a person other than a bank, a Cooperative Financial Institution, or a financial institution specified by Cabinet Order (but not a person engaged in Type I Financial Instruments Business (meaning Type I Financial Instruments Business as prescribed in Article 28, paragraph (1); hereinafter the same applies in this Chapter) and not the officer or employee of a registered financial institution) may be registered by the Prime Minister and engage in Financial Instruments Intermediation.

(Application for Registration)

Article 66-2 (1) A person seeking to be registered as referred to in the preceding Article must submit a written application for registration to the Prime Minister, in which it state the following particulars:

- (i) the trade name or name;
- (ii) the names of its officers, if it is a corporation;
- (iii) the name and location of the business office or office for engaging in Financial Instruments Intermediation;
- (iv) the trade name or name of the Financial Services Provider (limited to one engaged in Type I Financial Instruments Business or Investment Management (meaning Investment Management as prescribed in Article 28, paragraph (4); the same applies in Article 66-14, item (i), sub-item (c) or registered financial institution entrusting the applicant (hereinafter referred to as the "Entrusting Financial Services Provider, etc." in this Chapter and Chapter IV);
- (v) if the person engages in other business, the business type; and
- (vi) other particulars specified by Cabinet Office Ordinance.

(2) The following documents must accompany the written application for registration referred to in the preceding paragraph:

- (i) a document pledging that the applicant does not fall under the purview of Article 66-4, item (i) or (ii);
- (ii) a document stating the things specified by Cabinet Office Ordinance as constituting the business outline and business methods for Financial Instruments Intermediation;
- (iii) its articles of incorporation and the certificate of registered information for the company (including documents equivalent to these), if it is a corporation;

and

(iv) other documents specified by Cabinet Office Ordinance.

(3) In the case referred to in item (iii) of the preceding paragraph, if the articles of incorporation have been prepared as electronic or magnetic records, electronic or magnetic records (limited to those specified by Cabinet Office Ordinance) may accompany a written application for registration lieu of written documents.

(Registration in a Register)

Article 66-3 (1) Whenever an application is filed for the registration referred to in Article 66, unless the Prime Minister refuses the registration pursuant to the provisions of the following Article, the Prime Minister must register the following particulars in a Financial Instruments Intermediaries register:

(i) the particulars set forth in the items of paragraph (1) of the preceding Article; and

(ii) the date of registration and registration number.

(2) The Prime Minister must make the Financial Instruments Intermediaries register available for public inspection.

(Refusal of Registration)

Article 66-4 The Prime Minister must refuse a registration if the applicant for registration falls under one of the following items, if the written application for registration or a document or electronic or magnetic record that is required to accompany it contains a false statement or record, or if it omits a statement or record of a material fact:

(i) the applicant for registration is an individual that falls under one of the categories in sub-items (a) to (g) inclusive of Article 29-4, paragraph (1), item (i);

(ii) the applicant for registration is a corporation that falls under one of the following categories:

(a) a person that falls under sub-item (a) or (b) of Article 29-4, paragraph (1), item (i); or

(b) a person that has a person falling under any of sub-items (a) to (g) inclusive of Article 29-4, paragraph (1), item (ii) as an officer.

(iii) a person whose other business is found to be contrary to the public interest;

(iv) a person that is found not to have the knowledge or experience to perform Financial Instruments Intermediation in an appropriate manner;

(v) the applicant for registration has an Entrusting Financial Services Provider, etc. that is not a member of an association (meaning an Authorized Financial Instruments Business Association or a Certified Financial Instruments

Business s Association as prescribed in Article 78, paragraph (2)); or  
(vi) a Financial Services Provider (but only a person engaged in Type I  
Financial Instruments Business).

(Notification of a Change)

- Article 66-5 (1) If a particular set forth in one of the items of Article 66-2, paragraph (1) changes, the Financial Instruments Intermediary must notify the Prime Minister of this within two weeks from the day of the change.
- (2) Upon accepting a notification under the preceding paragraph, the Prime Minister shall register the particulars given in the notification in a Financial Instruments Intermediaries register.
- (3) If the business outline or business methods that a Financial Instruments Intermediary has stated in a document set forth in Article 66-2, paragraph (2), item (ii) change, the Financial Instruments Intermediary must notify the Prime Minister of this without delay, pursuant to the provisions of Cabinet Office Ordinance.

(Restriction on the Use of a Trade Name)

Article 66-6 A person that is not a Financial Instruments Intermediary must not use a trade name or name that refers to it as a Financial Instruments Intermediary, and must not use any trade name or name that is confusingly similar to this.

## **Section 2 Services**

(Duty of Sincerity to Customers)

Article 66-7 A Financial Instruments Intermediary as well as its officers and employees must be sincere and fair to customers in the performance of its services.

(Posting of Signs)

- Article 66-8 (1) A Financial Instruments Intermediary must post a sign in the format specified by Cabinet Office Ordinance in a place that is accessible to the public at each of its business offices or other offices.
- (2) A person other than a Financial Instruments Intermediary must not post the sign referred to in the preceding paragraph or a sign similar thereto.

(Prohibition on Name Lending)

Article 66-9 A Financial Instruments Intermediary must not allow another person to engage in Financial Instruments Intermediation Services using the name of said Financial Instruments Intermediary.

(Regulation of Advertising)

Article 66-10 (1) When advertising the contents of its Financial Instruments Intermediation or performing any similar act specified by Cabinet Office Ordinance, a Financial Instruments Intermediary shall give the following particulars, pursuant to the provisions of Cabinet Office Ordinance:

- (i) the trade name or name of the Financial Instruments Intermediary;
  - (ii) an indication that the Financial Instruments Intermediary is a Financial Instruments Intermediary, and its registration number; and
  - (iii) the particulars of the contents of the Financial Instruments Intermediation that the Financial Instruments Intermediary engages in, which is specified by Cabinet Order as material particulars that may have an impact on customers' judgment.
- (2) When advertising the contents of its Financial Instruments Intermediation or engaging in any similar act specified by Cabinet Office Ordinance, a Financial Instruments Intermediary must not make a representation that significantly conflicts with the fact of the matter or that could cause a person to have a serious misconception about the prospect of profiting from the performance of an act that constitutes a Financial Instruments transaction, or about any other matter that is specified by Cabinet Office Ordinance.

(Clear Indication of Trade Name)

Article 66-11 If a Financial Instruments Intermediary seeks to perform an act set forth in one of the items of Article 2, paragraph (11) (hereinafter referred to as the "Intermediation for Financial Instruments " in this Chapter), it must clearly indicate the following particulars to customers in advance:

- (i) the trade name or the name of the Entrusting Financial Services Provider, etc.;
- (ii) that the Financial Instruments Intermediary does not have authority of representation in respect of the Entrusting Financial Services Provider, etc.;
- (iii) the import of the provisions of Article 66-13; and
- (iv) other matters specified by Cabinet Office Ordinance.

(Limitations on Financial Instruments Intermediaries)

Article 66-12 A Financial Instruments Intermediary (excluding a person that is a Financial Services Provider) must not engage in any act set forth in the items of Article 2, paragraph (8), except for the Intermediation for Financial Instruments to which a customer of its Financial Instruments Intermediation is the other party, as entrusted by the Entrusting Financial Services Provider, etc.

(Prohibition on the Depositing of Money)

Article 66-13 A Financial Instruments Intermediary must not, for any reason, receive a deposit of money or Securities from a customer, or have a person specified by Cabinet Order as being closely related to said Financial Instruments Intermediary deposit a customer's money or Securities, in connection with the Financial Instruments Intermediation it conducts.

(Prohibited Acts)

Article 66-14 It is prohibited for a Financial Instruments Intermediary or its officer or employee to engage in the following acts:

- (i) the performance of one of the following acts in connection with Financial Instruments Intermediation:
  - (a) an act that falls under Article 38, item (i);
  - (b) an act that falls under one of the categories in Article 38, items (ii) to (vi) inclusive;
  - (c) if it provides Investment Advisory Services (meaning Investment Advisory Services set forth in Article 28, paragraph (6); the same applies in this sub-item (c)), using information about a Purchase and Sale or Other Transaction of Securities, etc. that a customer makes based on the advice provided through its Investment Advisory Services in order to solicit a customer other than the customer in question; or if it engages in Investment Management, using information about a Purchase and Sale or Other Transaction of Securities, etc. made as an investment in connection with its Investment Management, in order to solicit a customer other than the customer in question;
  - (d) if it engages in business other than Financial Instruments Intermediation, using information about an Issuer of Securities learned in the course of that other business (limited to undisclosed information about the operations, business, or assets of an Issuer of Securities that would influence customers' investment decisions in connection with Financial Instruments Intermediation) to conduct solicitation; or
  - (e) conducting a solicitation with the Financial Instruments Intermediary's lending of money or granting of other credit as a condition (excluding acts specified in Cabinet Office Ordinance as acts that are found to have little likelihood of resulting in insufficient investor protection).
- (ii) making a Purchase and Sale or Other Transaction of Securities, etc. on the intermediary's, officer's, or employee's own account, using the ordering trends for Purchase and Sales and Other Transactions of Securities, etc. made by customers of its Financial Instruments Intermediation or other special information learned in the course of Financial Instruments Intermediation; and

(iii) acts beyond what is set forth in the preceding two items, which are specified by Cabinet Office Ordinance as acts that result in insufficient investor protection, harm the fairness of transactions, or cause a loss of confidence in Financial Instruments Intermediations.

(Limitation on Intermediation for the Purchase and Sale of Securities for Professional Investors)

Article 66-14-2 A Financial Instruments Intermediary must not conduct one of the acts specified in Article 2, paragraph (11), item (i) or (ii) in connection with Securities for Professional Investors with a general investor (meaning a person other than a Professional Investor, etc., the Issuer of the Securities for Professional Investors, or any other person specified by Cabinet Office Ordinance; hereinafter the same applies in this Article) as the other party; provided, however, that this does not apply in a Case In Which Disclosure Has Been Made with regard to the Securities for Professional Investors, a case in which the Financial Instruments Intermediary intermediates, a purchase for an Entrusting Financial Services Provider, etc. which is not based on a solicitation of general investors, or any other case specified by Cabinet Office Ordinance as having little likelihood of resulting in insufficient investor protection.

(Applications Mutatis Mutandis of Provisions on Financial Services Providers, etc. in Relation to the Prohibition on Loss Compensation)

Article 66-15 The provisions of Article 38-2, Article 39, paragraphs (1), (3), and (5) and Article 40 apply mutatis mutandis to a Financial Instruments Intermediary, and Article 39, paragraphs (2) and (4) apply mutatis mutandis to the customer of a Financial Instruments Intermediary. In this case, in Article 39, paragraph (3), the phrase "if the Financial Services Provider, etc. receives" is deemed to be replaced with "if the Entrusting Financial Services Provider, etc. of the Financial Instruments Intermediary receives", and any other necessary technical replacement of terms is specified by Cabinet Order.

### **Section 3 Accounting**

(Business Books and Documents)

Article 66-16 A Financial Instruments Intermediary shall prepare and archive books and documents for its Financial Instruments Intermediation pursuant to the provisions of Cabinet Office Ordinance.

(Submission of Business Reports)

Article 66-17 (1) Each business year, a Financial Instruments Intermediary

shall prepare a report on its Financial Instruments Intermediation and submit it to the Prime Minister within three months after the end of the business year, pursuant to the provisions of Cabinet Office Ordinance.

- (2) Each business year, pursuant to the provisions of Cabinet Office Ordinance, a Financial Instruments Intermediary shall prepare documents stating those of the particulars stated in the business report referred to in the preceding Article which are specified by Cabinet Office Ordinance as particulars that are found to be necessary in terms of investor protection, and shall keep those documents at all of the business offices and offices at which it conducts Financial Instruments Intermediation and make them available for public inspection.

(Public Inspection of Explanatory Documents)

Article 66-18 For each business year of an Entrusting Financial Services Provider, etc. and pursuant to the provisions of Cabinet Office Ordinance, a Financial Instruments Intermediary shall keep the explanatory documents that the Entrusting Financial Services Provider, etc. prepares pursuant to the provisions of Article 46-4 or Article 47-3 (if the Entrusting Financial Services Provider, etc., is a registered financial institution, the documents that it prepares pursuant to the provisions of Article 21, paragraphs (1) and (2) of the Banking Act (Act No. 59 of 1981) or other provisions specified by Cabinet Order) at all of the business offices and offices at which it conducts Financial Instruments Intermediation, and shall make them available for public inspection.

#### **Section 4 Supervision**

(Notification of Business Discontinuance)

Article 66-19 (1) If a Financial Instruments Intermediary comes to fall under one of the following items, the person specified in the relevant item must notify the Prime Minister of this within 30 days from the day in question:

- (i) the Financial Instruments Intermediary discontinues Financial Instruments Intermediation (including if the Financial Instruments Intermediary has the whole of its business (limited to business involved in Financial Instruments Intermediation; hereinafter the same applies in this item) succeeded to in a company split or transfers the whole of business)): the individual or the corporation that discontinues or transfers the Financial Instruments Intermediation Services, or has the Financial Instruments Intermediation Services succeeded to;
- (ii) the Financial Instruments Intermediary is an individual, and that individual dies: the heir thereof;

- (iii) the Financial Instruments Intermediary is a corporation, and that corporation disappears in a merger: the officer that represented the corporation;
  - (iv) the Financial Instruments Intermediary is a corporation, and that corporation becomes subject to an order to commence bankruptcy proceedings: the bankruptcy trustee; and
  - (v) the Financial Instruments Intermediary is a corporation, and that corporation is dissolved for reasons other than a merger or an order to commence bankruptcy proceedings: the liquidator.
- (2) If a Financial Instruments Intermediary comes to fall under one of the items of the preceding paragraph, if it no longer has an Entrusting Financial Services Provider, etc., or if it becomes registered as referred to in Article 29 (but only if the registered Financial Service Provider engages in Type I Financial Instruments Business), its Article 66 registration ceases to be valid.

(Supervisory Measures)

Article 66-20 (1) If a Financial Instruments Intermediary falls under one of the following items, the Prime Minister may rescind its Article 66 registration, order the suspension of all or a part of business activities during a fixed period of no longer than six months, order a change of business methods, or issue orders with respect to matters that are otherwise necessary from a supervisory perspective:

- (i) the Financial Instruments Intermediary comes to fall under one of the categories in items (i) to (v) inclusive of Article 66-4 (excluding item (ii), sub-item (b));
  - (ii) the Financial Instruments Intermediary receives its Article 66 registration by wrongful means; or
  - (iii) the Financial Instruments Intermediary violates a law or regulation or a disposition made by a government agency which is based on a law or regulation, in connection with Financial Instruments Intermediation Services.
- (2) If the officer of a Financial Instruments Intermediary comes to fall under one of the categories in Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive, or engages in an act that falls under item (iii) of the preceding paragraph, the Prime Minister may order the Financial Instruments Intermediary to dismiss that officer.

(Deletion of Registrations)

Article 66-21 If an Article 66 registration loses its validity pursuant to the provisions of Article 66-19, paragraph (2) or if the Prime Minister rescinds an Article 66 registration pursuant to the provisions of paragraph (1) of the

preceding Article, the Prime Minister must delete that registration.

(Collection of Reports and Inspections)

Article 66-22 Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a Financial Instruments Intermediary or a person that conducts transactions with a Financial Instruments Intermediary to submit reports or materials that should serve as a reference with regard to the Financial Instruments Intermediation of the Financial Instruments Intermediary, or may have the relevant officials inspect the state of the Financial Instruments Intermediation of the Financial Instruments Intermediary or inspect its documents or other articles.

(Mutatis Mutandis Application)

Article 66-23 The provisions of Article 57, paragraphs (1) and (3) apply mutatis mutandis to the registration referred to in Article 66, and the provisions of Article 57, paragraphs (2) and (3) and Article 65-6 apply mutatis mutandis to a Financial Instruments Intermediary. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

## **Section 5 Miscellaneous Provisions**

(Compensatory Liability of an Entrusting Financial Services Provider, etc.)

Article 66-24 The Entrusting Financial Services Provider, etc., of a Financial Instruments Intermediary is liable for damages that that the Financial Instruments Intermediary it entrusts causes to a customer in connection with Financial Instruments Intermediation Services; provided, however, that this does not apply if the Entrusting Financial Services Provider, etc. exercises due care in entrusting the Financial Instruments Intermediary, and endeavors to prevent the damage that the person causes to a customer in connection with the Intermediation for Financial Instruments that the person performs.

(Mutatis Mutandis Application)

Article 66-25 The provisions of Articles 64 to 64-9 inclusive (excluding Article 64-7, paragraph (2)) apply mutatis mutandis to a Financial Instruments Intermediary. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Delegation to Cabinet Office Ordinance)

Article 66-26 Procedures for the implementation of the provisions of Article 66 to the preceding Article inclusive and particulars that are otherwise necessary for

their implementation are specified by Cabinet Office Ordinance.

### **Chapter III-3 Credit Rating Agencies**

#### **Section 1 General Provisions**

(Registration)

Article 66-27 A corporation engaged in Credit Rating Services (including an organization without legal personality whose representative or administrator has been designated; hereinafter the same applies in this Chapter, except in paragraph (1), item (ii) of the following Article and Article 66-47) may be registered by the Prime Minister.

(Application for Registration)

Article 66-28 (1) A person seeking to be registered as referred to in the preceding Article must submit a written application for registration to the Prime Minister, in which it states the following particulars. In such a case, a foreign corporation must designate a domestic representative (limited to one responsible for business at all business offices or offices that the foreign corporation operates in Japan so as to engage in Credit Rating Services) or a person specified by Cabinet Office Ordinance as equivalent to this, before submitting such a written application for registration:

- (i) its trade name or name;
- (ii) the names of its officers (including the representative or administrator of an organization without legal personality for which a representative or administrator has been designated; hereinafter the same applies in this Chapter);
- (iii) the name and location of the business offices or offices for Credit Rating Services (or the head office, principal business office or office, or any other business office or office in Japan, for a foreign corporation);
- (iv) if it engages in other business, the business type; and
- (v) other particulars specified by Cabinet Office Ordinance.

(2) The following documents must accompany the written application for registration referred to in the preceding paragraph:

- (i) a document pledging that the applicant does not fall under the purview of Article 66-30, paragraph (1), item (ii) or (iii);
- (ii) a document stating the things specified by Cabinet Office Ordinance as constituting the business outline and business methods for Credit Rating Services;
- (iii) the articles of incorporation and the certificate of registered information for the company (including documents equivalent to these); and
- (iv) other documents specified by Cabinet Office Ordinance.

(3) In the case referred to in item (iii) of the preceding paragraph, if the articles of incorporation have been prepared as electronic or magnetic records, electronic or magnetic records (limited to that specified by Cabinet Office Ordinance) may accompany a written application for registration in lieu of documents.

(Registration in a Register)

Article 66-29 (1) Whenever an application is filed for the registration referred to in Article 66-27, unless the Prime Minister refuses the registration pursuant to the provisions of the following Article, the Prime Minister shall register the following particulars in a Credit Rating Agencies register:

(i) the particulars set forth in the items of paragraph (1) of the preceding Article; and

(ii) the date of registration and registration number.

(2) The Prime Minister must make the Credit Rating Agencies register available to the public.

(Refusal of Registration)

Article 66-30 (1) The Prime Minister must refuse to effect a registration if an applicant for registration falls under one of the following items, if the written application for registration or a document or electronic or magnetic record that is required to accompany it contains a false statement or record, or if it omits a statement or record of a material fact:

(i) a person other than a corporation;

(ii) a corporation that falls under Article 29-4, paragraph (1), sub-item (a) or (b);

(iii) a corporation that has a person falling under any of sub-items (a) to (g) inclusive of Article 29-4, paragraph (2), item (ii) as an officer;

(iv) a corporation whose other business is found to be contrary to the public interest; or

(v) a corporation that is found not to have in place the necessary system for fairly and appropriately performing Credit Rating Services.

(2) In addition to what is provided for in the preceding paragraph, the Prime Minister must refuse a registration if the applicant for registration is a foreign corporation and has no business office or office in Japan; provided, however, that this does not apply in cases specified by Cabinet Office Ordinance as those in which the applicant for registration is found to be under appropriate supervision by a foreign administrative organization that supervises persons conducting business that is found to be equivalent to Credit Rating Services, or by any other organization equivalent to such an organization, and does not apply to a case in which refusal to effect a registration pursuant to the main

clause of this paragraph would preclude the sincere implementation of a treaty or other international agreement.

(Notification of a Change)

Article 66-31 (1) If a particular set forth in one of the items of Article 66-28, paragraph (1) changes, the Credit Rating Agency must notify the Prime Minister of this within two weeks from the day of the change.

(2) Upon accepting a notification under the preceding paragraph, the Prime Minister shall register the particulars given in the notification in a Credit Rating Agencies register.

(3) If a particular stated in a document set forth in Article 66-28, paragraph (2), item (ii) changes, the Credit Rating Agency must notify the Prime Minister of this without delay, pursuant to the provisions of Cabinet Office Ordinance.

## **Section 2 Services**

(Duty of Sincerity)

Article 66-32 A Credit Rating Agency as well as its officers and employees must be sincere and fair in the performance of its services, from an independent standpoint.

(Establishment of an Operational Control System)

Article 66-33 (1) A Credit Rating Agency must establish an operational control system for the fair and appropriate performance of its Credit Rating Services, pursuant to the provisions of Cabinet Office Ordinance.

(2) The operational control system referred to in the preceding paragraph must include measures for assigning persons with expert knowledge and skills and for otherwise managing the quality of business, measures for preventing the investors' interests from being harmed with the aim of benefiting the Credit Rating Agency itself or a person associated with a rating (meaning a person specified by Cabinet Office Ordinance as having an interest in the thing on which a Credit Rating is based; the same applies in Article 66-35) and other measures for ensuring the proper execution of business.

(Prohibition on Name Lending)

Article 66-34 A Credit Rating Agency must not allow another person to engage in Credit Rating Services using the name of said Credit Rating Agency.

(Prohibited Acts)

Article 66-35 It is prohibited for a Credit Rating Agency or its officer or employee to engage in the following acts with regard to its Credit Rating

Services:

- (i) providing or making available for inspection a Credit Rating that is based on anything specified by Cabinet Office Ordinance as those in which a person associated with a rating has an interest, if the Credit Rating Agency or its officer or employee is closely related as specified by Cabinet Office Ordinance to the person associated with that rating;
- (ii) providing a Credit Rating or making it available for inspection, if the Credit Rating Agency or its officer or employee has given advice to the person associated with the rating about a matter specified by Cabinet Office Ordinance as those that may have a material influence on the Credit Rating of the person associated with that rating (this excludes the Credit Rating Agency or its officer or employee informing the person associated with a rating of the details of the Rating Policy as defined in paragraph (1) of the following Article at that person's request, and also excludes cases specified by Cabinet Office Ordinance as those in which such advice is found to have little likelihood of resulting in insufficient investor protection, in light of the form of that advice); and
- (iii) any act beyond what is set forth in the preceding two items, which is specified by Cabinet Office Ordinance as resulting in insufficient investor protection or as causing a loss of confidence in Credit Rating Services.

(Rating Policy)

Article 66-36 (1) A Credit Rating Agency, pursuant to the provisions of Cabinet Office Ordinance, must set a policy and methodology for determining Credit Ratings and for providing them or making them available for inspection (such a policy is referred to as a "Rating Policy" in the following paragraph) and must disclose the same. The same applies if the Credit Rating Agency changes its Rating Policy.

(2) A Credit Rating Agency must carry out its Credit Rating Services in accordance with the Rating Policy.

### **Section 3 Accounting**

(Business Books and Documents)

Article 66-37 A Credit Rating Agency shall prepare and archive books and documents related to its Credit Rating Services pursuant to the provisions of Cabinet Office Ordinance.

(Submission of Business Reports)

Article 66-38 Each business year, pursuant to the provisions of Cabinet Office Ordinance, a Credit Rating Agency shall prepare a business report and submit

it to the Prime Minister within the period specified by Cabinet Order after the end of the business year.

(Public Inspection of Explanatory Documents)

Article 66-39 Each business year, a Credit Rating Agency shall prepare explanatory documents stating the particulars specified by Cabinet Office Ordinance as pertinent to the state of its business, and during the one-year period beginning from the day on which the period specified by Cabinet Order elapses following the end of each business year, in addition to keeping these explanatory documents at all of its business offices and offices and making them available for public inspection, it shall disclose them over the Internet or by any other means, pursuant to the provisions of Cabinet Office Ordinance.

#### **Section 4 Supervision**

(Notification of Business Discontinuance)

Article 66-40 (1) If a Credit Rating Agency comes to fall under one of the following items, the person specified in the relevant item must notify the Prime Minister of this within 30 days from the day in question:

- (i) the Credit Rating Agency discontinues Credit Rating Services (including if the Credit Rating Agency has the whole of its business (limited to business involved in Credit Rating Services; hereinafter the same applies in this Article) succeeded to in a company split or transfers the whole of business): the corporation that discontinues or transfers the Credit Rating Services or that has the Credit Rating Services succeeded to;
  - (ii) the Credit Rating Agency is a corporation, and that corporation disappears in a merger: the officer that represented the corporation;
  - (iii) the Credit Rating Agency is a corporation, and that corporation is dissolved due to an order to commence bankruptcy proceedings: the bankruptcy trustee; and
  - (iv) the Credit Rating Agency is a corporation, and that corporation is dissolved for reasons other than a merger or an order to commence bankruptcy proceedings: the liquidator.
- (2) If a Credit Rating Agency comes to fall under one of the items of the preceding paragraph, the Article 66-27 registration of the Credit Rating Agency ceases to be valid.
- (3) If a Credit Rating Agency seeks to apply for the deletion of its Article 66-27 registration, to discontinue its Credit Rating Services, to implement a merger (limited to one in which the Credit Rating Agency disappears due to merger), to dissolve for reasons other than a merger or an order to commence bankruptcy proceedings, to have the whole of its business succeeded to in a company split,

or to transfer the whole of its business, it shall issue public notice of this, pursuant to the provisions of Cabinet Office Ordinance, by 30 days prior to that day on which it seeks to do so.

- (4) If a Credit Rating Agency issues a public notice under the preceding paragraph, it must immediately notify the Prime Minister of this.
- (5) The provisions of Article 940, paragraph (1) (limited to the part that involves item (i)) and paragraph (3) of the Companies Act apply mutatis mutandis if a Credit Rating Agency (limited to one that is a company) issues a public notice under paragraph (3) through an Electronic Public Notice. The necessary technical replacement of terms for such a case is specified by Cabinet Order.
- (6) The provisions of Article 940, paragraph (1) (limited to the part that involves item (i)) and paragraph (3) of the Companies Act and Article 941; Article 946; Article 947; Article 951; paragraph (2); Article 953; and Article 955 of that Act apply mutatis mutandis if a Credit Rating Agency (limited to one that is a foreign company) issues a public notice under paragraph (3) through an Electronic Public Notice. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Business Improvement Orders)

Article 66-41 If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors as concerns the state of a Credit Rating Agency's business operations, the Prime Minister, within the scope of this necessity, may order the Credit Rating Agency to change its business methods or may otherwise order it to take measures that are necessary for improving the state of its business operations.

(Supervisory Measures)

Article 66-42 (1) If a Credit Rating Agency falls under one of the following items, the Prime Minister may rescind its Article 66-27 registration, or may order the suspension of all or a part of business activities during a fixed period of no longer than six months:

- (i) the Credit Rating Agency comes to fall under one of the items (excluding item (iii)) of Article 66-30, paragraph (1);
- (ii) the Credit Rating Agency comes to fall under the purview of grounds upon which the Prime Minister is required to refuse registration pursuant to Article 66-30, paragraph (2),
- (iii) the Credit Rating Agency has received its Article 66-27 registration by wrongful means;
- (iv) the Credit Rating Agency violates a law or regulation or a disposition by a government agency which is based on a law or regulation, in connection with its Credit Rating Services;

- (v) a fact has occurred in connection with the operation of its Credit Rating Services, which is detrimental to investors' interests; or
  - (vi) the Credit Rating Agency commits a wrongful or extremely unjust act in connection with Credit Rating Services, and the circumstances surrounding this are especially serious.
- (2) If the officer of a Credit Rating Agency (for a foreign corporation, this is limited to an officer stationed at its domestic business office or office and its domestic representative; hereinafter the same applies in this paragraph) comes to fall under one of the categories in Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive, is discovered to have fallen under one of the categories in sub-items (a) to (g) inclusive of that item at the time of the Article 66-27 registration, or comes to fall under one of the categories in items (iv) to (vi) inclusive of the preceding paragraph, the Prime Minister may order the Credit Rating Agency to dismiss that officer.
- (3) If the Prime Minister is unable to ascertain the location of the business offices or offices of a Credit Rating Agency or is unable to ascertain the whereabouts of the officer representing the Credit Rating Agency, the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, may issue public notice of that fact and rescind the registration of the Credit Rating Agency if no filing is made by the Credit Rating Agency even after 30 days past the day of the public notice.
- (4) The provisions of Chapter III of the Administrative Procedure Act do not apply to a disposition under the preceding paragraph.

(Public Notice of Supervisory Measures)

Article 66-43 If the Prime Minister rescinds an Article 66-27 registration pursuant to the provisions of paragraph (1) or (3) of the preceding Article or orders the suspension of all or a part of business activities pursuant to paragraph (1) of the preceding Article, the Prime Minister must issue public notice of this pursuant to the provisions of Cabinet Office Ordinance.

(Deletion of Registrations)

Article 66-44 Whenever an application is filed by a Credit Rating Agency for the deletion of an Article 66-27 registration, or if an Article 66-27 registration loses its validity pursuant to the provisions of Article 66-40, paragraph (2) or the Prime Minister rescinds an Article 66-27 registration pursuant to the provisions of Article 66-42, paragraph (1) or (3), the Prime Minister must delete that registration.

(Collection of Reports and Inspection)

Article 66-45 (1) Whenever the Prime Minister finds it to be necessary and

appropriate in the public interest or for the protection of investors, the Prime Minister may order a Credit Rating Agency, a person that conducts transactions with a Credit Rating Agency, the person that a Credit Rating Agency has entrusted with its business, or the affiliated corporation of a Credit Rating Agency (meaning the Subsidiary Corporation of a Credit Rating Agency, a corporation that has a Credit Rating Agency as its Subsidiary Corporation, or the Subsidiary Corporation of a corporation that has a Credit Rating Agency as its Subsidiary Corporation (other than the relevant Credit Rating Agency itself), which performs the act of determining Credit Ratings and providing them or making them available for inspection in the course of business; hereinafter the same applies in this paragraph) to submit reports or materials that should serve as a reference with regard to the business of the Credit Rating Agency, or may have the relevant officials inspect the state of business, documents, or other articles of a Credit Rating Agency, the person that a Credit Rating Agency has entrusted with its business, or the affiliated corporation of a Credit Rating Agency (but may only have the relevant officials inspect the person that a Credit Rating Agency has entrusted with its business or the affiliated corporation of a Credit Rating Agency as is necessary in connection with the business of the Credit Rating Agency).

(2) The term "Subsidiary Corporation" as used in the preceding paragraph means a second corporation in which a first corporation holds the majority of all shareholders', etc. voting rights. In such a case, a second corporation in which a first corporation and one or more of its Subsidiary Corporations hold the majority all shareholders', etc. voting rights, or in which one or more of a first corporation's Subsidiary Corporations hold the majority all shareholders', etc. voting rights, is deemed to be the Subsidiary Corporation of that first corporation.

## **Section 5 Miscellaneous Provisions**

(Acting Representative)

Article 66-46 (1) If there is a position vacancy for the domestic representative of a Credit Rating Agency (limited to a foreign corporation; hereinafter the same applies in this Article), and the Prime Minister finds it to be necessary, the Prime Minister may appoint a person to temporarily perform the duties of the domestic representative (referred to as the "Acting Representative" in the following paragraph). In such a case, the Credit Rating Agency must register the appointment in connection with the location of the principal business office or office in Japan.

(2) If the Prime Minister appoints an Acting Representative pursuant to the provisions of the preceding paragraph, the Prime Minister may order the

Credit Rating Agency to pay the Acting Representative a reasonable amount of remuneration.

(Technical Replacement of Terms in the Application of Provisions of This Act to Foreign Corporations)

Article 66-47 If a Credit Rating Agency is a foreign corporation or an organization without legal personality for which a representative or administrator has been designated, the technical replacement of terms in the application of the provisions of this Act and necessary particulars otherwise relevant in the application of the provisions of this Act to the foreign corporation or to the organization without legal personality for which a representative or administrator has been designated are specified by Cabinet Order.

(Mutatis Mutandis Application)

Article 66-48 The provisions of Article 57, paragraphs (1) and (3) apply mutatis mutandis to the registration referred to in Article 66-27, and the provisions of Article 57, paragraphs (2) and (3) and Article 65-6 apply mutatis mutandis to a Credit Rating Agency. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Delegation to Cabinet Office Ordinance)

Article 66-49 Procedures for the implementation of the provisions of Article 66-27 to the preceding Article inclusive and particulars that are otherwise necessary for their implementation are specified by Cabinet Office Ordinance.

## **Chapter IV Financial Instruments Business Associations**

### **Section 1 Authorized Financial Instruments Business Associations**

#### **Subsection 1 Incorporation and Services**

(Purpose of an Authorized Association)

Article 67 (1) An Authorized Financial Instruments Business Association (hereinafter referred to as an "Authorized Association" in this Chapter) aims to ensure fair and smooth purchase and sales and other transactions of Securities and to ensure fair and smooth Derivatives Transactions, etc., as well as to contribute to the sound development of the Financial Instruments Business and to the protection of investors.

(2) An Authorized Association may operate a market in which Over-the-Counter Traded Securities are traded (but only if the association members (meaning the members of an Authorized Association; hereinafter the same applies in this Section) make such transactions on their own accounts, and if association

members provide intermediation, brokerage, or agency; the same applies in Article 67-11, paragraph (1)) (hereinafter referred to as an "Over-the-Counter Securities Market"), in order to facilitate the distribution of Securities (limited to Securities not listed on a Financial Instruments Exchange; the same applies in Article 67-11, paragraph (1)), to ensure fairness in purchase and sales and other transactions of Securities, and to contribute to the protection of investors.

- (3) For each Over-the-Counter Securities Market it operates, an Authorized Association may prohibit association members from making a purchase of Securities as requested by a person other than a Professional Investor, etc. (excluding the Issuer of the Securities or any other person specified by Cabinet Office Ordinance) (such a purchase is referred to as a "Purchase for a General Investor" in Article 67-12, item (v)), as prescribed in its articles of incorporation.
- (4) An Authorized Association is as a juridical person.
- (5) A person that is not an Authorized Association must not use a term in its name which could give rise to the misconception that it is an Authorized Financial Instruments Business Association.

(Authorization for Incorporation)

Article 67-2 (1) An Authorized Association may be incorporated only by a Financial Services Provider.

- (2) A Financial Services Provider must obtain the authorization of the Prime Minister if it seeks to incorporate as an Authorized Association.
- (3) A registered financial institution is deemed to be a Financial Services Provider with regard to the application of the provisions of the preceding two paragraphs; Article 68, paragraphs (1) and (2); Article 78, paragraph (1); Article 79-7, paragraph (1); and Article 79-11, within the scope of the performance of the services of a registered financial institution.

(Submission of a Written Application for Authorization)

Article 67-3 (1) A person seeking the authorization referred to in paragraph (2) of the preceding Article must submit a written application for authorization to the Prime Minister, in which it states the following particulars:

- (i) its name;
  - (ii) the location of its office; and
  - (iii) the names of its officers and names of its association members.
- (2) The articles of incorporation and other rules as well as other documents specified by Cabinet Office Ordinance must accompany the written application for authorization referred to in the preceding paragraph.

(Examination of Applications for Authorization)

Article 67-4 (1) Whenever an application for authorization under paragraph (1) of the preceding Article is filed, the Prime Minister shall examine whether the application conforms to the following criteria:

- (i) the provisions of the articles of incorporation and other rules conform to laws and regulations, and are sufficient for ensuring fair and smooth purchase and sales and other transactions of Securities and for ensuring fair and smooth Derivatives Transactions, etc., as well as contributing to the sound development of the Financial Instruments Business and the protection of investors; and
  - (ii) the Authorized Association to which the application pertains will be organized in a manner that conforms to the provisions of this Act.
- (2) If, as a result of having conducted an examination pursuant to the provisions of the preceding paragraph, the Prime Minister finds that an application for authorization conforms to the criteria in that paragraph, the Prime Minister must authorize incorporation, except in a case that falls under one of the following items:
- (i) the applicant for authorization is a person that has been sentenced to a fine pursuant to the provisions of this Act, and five years have yet to pass since the day on which the person finished serving that sentence or ceased to be subject to its enforcement;
  - (ii) the applicant has a person falling under one of sub-items (a) to (g) inclusive of Article 29-4, paragraph (1), item (ii) as an officer; or
  - (iii) the written application for authorization or an accompanying document contains a false statement about a material particular.

(Hearing and Notification of an Applicant for Authorization)

Article 67-5 (1) If an application for authorization under Article 67-3, paragraph (1) is filed and the Prime Minister finds it inappropriate to grant that authorization, the Prime Minister shall notify the applicant for authorization and have the relevant officials conduct a hearing.

(2) Upon deciding to grant or to refuse to grant the authorization under Article 67-2, paragraph (2), the Prime Minister shall notify the applicant for authorization of this in writing without delay.

(Rescission of Authorization)

Article 67-6 If an Authorized Association is discovered to have fallen under one of the categories in the items of Article 67-4, paragraph (2) at the time it obtained its authorization for incorporation, the Prime Minister may rescind its authorization.

(Prohibition of Profit-Seeking)

Article 67-7 An Authorized Association must not engage in any business for profit.

(Particulars Required to Be Included in the Articles of Incorporation)

Article 67-8 (1) The articles of incorporation of an Authorized Association must include the following particulars (limited to an Authorized Association that operates an Over-the-Counter Securities Market, with regard to the particulars set forth in item (xiii)):

(i) the purpose of the Authorized Association;

(ii) its name;

(iii) the location of its offices;

(iv) the particulars of its association members;

(v) the particulars of its general meetings;

(vi) the particulars of its officers;

(vii) the particulars of its board meetings and other meetings;

(viii) the particulars of its execution of business operations;

(ix) the particulars of its improvement in the quality of officers and employees of the association members, and qualities of Financial Instruments Intermediaries (limited to Financial Instruments Intermediaries whose Entrusting Financial Services Providers, etc. are association members; hereinafter the same applies in this Section) and their officers and employees;

(x) the particulars involved in the preparation of rules;

(xi) the particulars involved in complaints from investors concerning the operations of the association members or Financial Instruments Intermediaries, and dispute resolution;

(xii) the particulars of purchase and sales and other transactions of Securities solicited by association members or Financial Instruments Intermediaries;

(xiii) the particulars of its Over-the-Counter Securities Market;

(xiv) the particulars of investigations into association members' and Financial Instruments Intermediaries' compliance with laws and regulations, dispositions by government agencies which are based on laws and regulations, the articles of incorporation and other rules, and the principle of good faith in their transactions;

(xv) the particulars of membership fees;

(xvi) the particulars of its accounting and assets; and

(xvii) its method of public notice.

(2) An Authorized Association must obtain the authorization of the Prime Minister if it seeks to change its articles of incorporation.

(3) If a particular set forth in Article 67-3, paragraph (1), item (ii) or (iii) changes, the Authorized Association must notify the Prime Minister of this without

delay. The same applies when the rules of an Authorized Association (excluding the articles of incorporation; and with regard to an Authorized Association that operates an Over-the-Counter Securities Market, excluding the rules set forth in Article 67-12) are prepared, if they change, or if they are discontinued.

(Representatives' Capacity in Respect of Tortious Acts)

Article 67-9 An Authorized Association is liable for the damages that its president or board members cause another person in the performance of their duties.

(Address of an Authorized Association)

Article 67-10 The address of an Authorized Association is the address at which its principal office is located.

(Registration in the Over-the-Counter Traded Securities Register)

Article 67-11 (1) An Authorized Association that operates an Over-the-Counter Securities Market shall register the class and issues of Securities to be sold and purchased on that Over-the-Counter Securities Market in an Over-the-Counter Traded Securities register that is kept at the Authorized Association.  
(2) The Authorized Association set forth in the preceding paragraph shall keep a copy of the Over-the-Counter Traded Securities register at its office and make the copy available for public inspection, pursuant to the provisions of Cabinet Office Ordinance.

(Authorization for Regulations)

Article 67-12 If an Authorized Association seeks to establish an Over-the-Counter Securities Market, it must provide for the following matters in its rules, in connection with the registration under paragraph (1) of the preceding Article and Over-the-Counter Traded Securities, and obtain the authorization of the Prime Minister. The same applies if the Authorized Association seeks to change or discontinue those rules:

- (i) the criteria and process for registration, and for rescission of registrations;
- (ii) the particulars involved in the reporting and announcement of trading prices;
- (iii) the process for concluding a contract for a purchase and sale or other transaction;
- (iv) delivery and other means of settlement;
- (v) if the Authorized Association prohibits Purchases for General Investors pursuant to the provisions of Article 67, paragraph (3), the following matters, in addition to those set forth in the preceding items:

- (a) the particulars of limitations imposed on association members' acceptance of requests to entrust them with the purchase and sale of Securities on the Over-the-Counter Securities Market; and
- (b) the content and the means of provision or timing for the disclosure of the Specified Information on Securities and Information on the Issuer that the Issuer of Securities for Professional Investors that are traded on that Over-the-Counter Securities Market (hereinafter referred to as "Over-the-Counter Traded Securities for Professional Investors" in this item) is required to provide or disclose, and necessary particulars otherwise relevant to the provision or disclosure of information on Over-the-Counter Traded Securities for Professional Investors.
- (vi) necessary particulars relevant to purchase and sales and other transactions of Over-the-Counter Traded Securities, other than the particulars set forth in the preceding items.

(Notification of Registration)

Article 67-13 If an Authorized Association seeks to make a registration under Article 67-11, paragraph (1) or to rescind such registration, it must notify the Prime Minister of this.

(Order to Register Share Certificates)

Article 67-14 If the Issuer of Over-the-Counter Traded Securities that an Authorized Association registers (limited to share certificates or the securities or certificates set forth in Article 2, paragraph (1), item (xx) that indicate a right connected with share certificates (hereinafter referred to as "Share Certificates, etc." in this Article and in Article 125)) issues Share Certificates, etc. that the Authorized Association does not register as under the provisions of Article 67-11, paragraph (1), and the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors for the Authorized Association to register those Share Certificates, etc. pursuant to that paragraph, the Prime Minister may order the Authorized Association to register those Share Certificates, etc. pursuant to the provisions of that paragraph.

(Order to Rescind a Registration)

Article 67-15 (1) If an Authorized Association violates the rules provided for in Article 67-12 as they pertain to item (i) of that Article in seeking to make or having made a registration of Securities under the provisions of Article 67-11, paragraph (1), or in seeking to rescind or having rescinded such a registration, the Prime Minister may order the Authorized Association to rescind the registration of those Securities or to re-register Securities whose registration

has been rescinded, or to otherwise take the necessary measures to rectify the violation. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.

- (2) With regard to the application of the provisions of Chapter III, Section 2 of the Administrative Procedure Act if the notice referred to in Article 15, paragraph (1) of that Act is given at the hearing for a disposition under the provisions of the preceding paragraph, the Issuer of the relevant Securities is deemed to be the person that receives the notice referred to in Article 15, paragraph (1) of that Act.

(Notification of Suspension of Purchase and Sales)

Article 67-16 If an Authorized Association suspends or cancels the suspension of purchase and sales on the Over-the-Counter Securities Market of Over-the-Counter Traded Securities that it has registered, it must notify the Prime Minister of this without delay.

(Order to Suspend Purchase and Sales)

Article 67-17 (1) If an Issuer of Over-the-Counter Traded Securities violates this Act, an order given based on this Act, or the rules of the Authorized Association that has registered the relevant Over-the-Counter Traded Securities, and the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order the Authorized Association to suspend purchase and sales of, or to rescind the registration of, the Over-the-Counter Traded Securities on the Over-the-Counter Securities Market that it operates. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.

- (2) With regard to the application of the provisions of Chapter III, Section 2 of the Administrative Procedure Act if the notice referred to in Article 15, paragraph (1) of that Act is given at the hearing for a disposition under the provisions of the preceding paragraph, the Issuer referred to in the preceding paragraph is deemed to be the person that receives the notice referred to in Article 15, paragraph (1) of that Act.

(Reporting to an Authorized Association)

Article 67-18 In a case set forth in one of the following items, an association member (in a case set forth in items (i) to (iii) inclusive, this is limited to the association member of an Authorized Association that operates an Over-the-Counter Securities Market) must report the particulars specified in that item

to the Authorized Association to which it belongs, pursuant to the provisions of Cabinet Office Ordinance:

- (i) if a purchase and sale of Over-the-Counter Traded Securities is made on the association member's own account, or a purchase and sale of Over-the-Counter Traded Securities is made and the association member provides intermediation, brokerage, or agency for it: the class, issue, price, volume, and other particulars specified by Cabinet Office Ordinance, with regard to the Securities subject to the purchase and sale;
- (ii) if the association member makes an offer to sell or purchase Over-the-Counter Traded Securities on its own account: the class, issue, price, and other particulars specified by Cabinet Office Ordinance, with regard to the Securities subject to the offer to sell or purchase;
- (iii) if the association member is entrusted, etc. with a purchase and sale of Over-the-Counter Traded Securities: the class, issues, price, volume, and other particulars specified by Cabinet Office Ordinance, with regard to the Securities subject to the entrustment, etc.;
- (iv) if a purchase and sale of tradable Securities (meaning Share Certificates, corporate bond certificates with share options, or any other Securities specified by Cabinet Office Ordinance, with regard to which the Authorized Association does not prohibit solicitation for purchase and sales and other transactions in its rules (excluding Securities listed on a Financial Instruments Exchange and Over-the-Counter Traded Securities); the same applies hereinafter) is made on the association member's own account, or a purchase and sale of tradable Securities is made and the association member provides intermediation, brokerage, or agency for it: the class, issue, price, volume, and other particulars specified by Cabinet Office Ordinance, with regard to the Securities subject to the purchase and sale;
- (v) if the association member makes an offer to sell or purchase tradable Securities on its own account: the class, issue, price, and other particulars specified by Cabinet Office Ordinance, with regard to the Securities subject to the offer to sell or purchase;
- (vi) if the association member is entrusted, etc. with the purchase and sale of tradable Securities: the class, issue, price, volume, and other particulars specified by Cabinet Office Ordinance, with regard to the Securities subject to the entrustment, etc.;
- (vii) if a purchase and sale of Listed Share Certificates, etc. (meaning share certificates, corporate bond certificates with share options, or any other Securities specified by Cabinet Office Ordinance, which are listed on a Financial Instruments Exchange; hereinafter the same applies in this Article to Article 78-5 inclusive) is made outside of a Financial Instruments Exchange Market and on the association member's own account; or a

purchase and sale of Listed Share Certificates, etc. is made outside of a Financial Instruments Exchange Market, and the association member provides intermediation, brokerage, or agency for it: the class, issue, price, volume, and other particulars specified by Cabinet Office Ordinance, with regard to the Listed Share Certificates, etc. subject to the purchase and sale; or

(viii) if the association member makes an offer to sell or purchase Listed Share Certificates, etc. to a large number of persons simultaneously outside of a Financial Instruments Exchange Market, or in any other case specified by Cabinet Office Ordinance: the class, issue, price, and other particulars specified by Cabinet Office Ordinance, with regard to the Securities subject to the offer to sell or purchase.

(Notice of Trading Volume, Price, etc.)

Article 67-19 Pursuant to the provisions of Cabinet Office Ordinance and based on the reports under the provisions of the preceding Article, an Authorized Association shall notify its association members of, and disclose to the public, the daily trading volume and the highest price, lowest price, closing price, and other particulars, for each day and for each issue, in respect of purchase and sales of Over-the-Counter Traded Securities, purchase and sales of tradable Securities, and purchase and sales of Listed Share Certificates, etc. outside a Financial Instruments Exchange Market, on the Over-the-Counter Securities Market that it operates (limited to those which the association members make on their own accounts and those for which the association members provide intermediation, brokerage, or agency; hereinafter the same applies in the following Article).

(Reporting of Trading Volume, Price, etc.)

Article 67-20 Pursuant to the provisions of Cabinet Office Ordinance, an Authorized Association shall report the daily trading volume and the highest price, lowest price, closing price, and other particulars, for each day and for each issue, in respect of purchase and sales of Over-the-Counter Traded Securities, purchase and sales of tradable Securities, and purchase and sales of Listed Share Certificates, etc. outside of a Financial Instruments Exchange Market, on the Over-the-Counter Securities Market that it operates, to the Prime Minister.

## **Subsection 2 Association Members**

(Eligibility for Association Membership and Restrictions on Joining an Authorized Association)

Article 68 (1) Membership in an Authorized Association is limited to Financial Services Providers.

- (2) Except in a case set forth in paragraph (5), an Authorized Association must stipulate in its articles of incorporation that any Financial Services Provider may join as an association member; provided, however, that this does not apply if membership is restricted by reason of a condition as to the geographic location or business type of the Financial Services Provider.
- (3) An Authorized Association must stipulate in its articles of incorporation that it will endeavor to prevent fraudulent acts, market manipulation, the collection of unreasonable fees and costs, and profiteering by association members and Financial Instruments Intermediaries, as well as to promote the principle of good faith in their transactions.
- (4) An Authorized Association must stipulate in its articles of incorporation that it will endeavor to prevent acts that are in violation of laws and regulations or the Authorized Association's articles of incorporation and other rules, and to ensure confidence of investors, by having internal rules and control systems established so that its association members and the Financial Instruments Intermediaries that have those association members as Entrusting Financial Services Providers, etc. comply with laws and regulations and with the Authorized Association's articles of incorporation and other rules.
- (5) An Authorized Association may stipulate in its articles of incorporation that it may refuse admission as an association member if an applicant has been ordered to suspend purchase and sales and other transactions of Securities or to suspend Derivatives Transactions, etc.; or has been expelled from the membership of, or had its trading license rescinded by, an Authorized Association or a Financial Instruments Exchange, on account of having violated a law or regulation, a disposition by a government agency which is based on a law or regulation, or the articles of incorporation or other rules of the Authorized Association or Financial Instrument Exchange, or on account of having engaged in an act that is contrary to the principle of good faith in transactions.
- (6) An Authorized Association must make a list of association members available for public inspection.

(Dispositions against Association Members)

Article 68-2 An Authorized Association must stipulate in its articles of incorporation that, if an association member or a Financial Instruments Intermediary whose Entrusting Financial Services Provider, etc. is an association member violates a law or regulation, a disposition by a government agency which is based on a law or regulation, or the Authorized Association's articles of incorporation or other rules, or if it violates the principle of good

faith in transactions, the Authorized Association will impose an administrative surcharge on the association member, order the suspension or restriction of its rights as an association member as provided in the articles of incorporation, or expel it from the Authorized Association.

### **Subsection 3 Management**

(Appointment of Officers and Their Official Authority)

Article 69 (1) An Authorized Association has one president, two or more board members, and two or more inspectors as its officers.

(2) A president represents an Authorized Association and presides over its affairs.

(3) A board member, pursuant to the provisions of the articles of incorporation, represents an Authorized Association, assists the president in administering the affairs of the Authorized Association, acts as a proxy in handling the duties of the president if the president is unable to attend to them, and performs the duties of the president if the position is vacant.

(4) An inspector examines the affairs of an Authorized Association.

(5) An officer loses the position of officer upon coming to fall under one of the categories in Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive.

(Order to Dismiss an Officer)

Article 70 If the Prime Minister discovers that a person has become the officer of an Authorized Association by wrongful means, or if the officer of an Authorized Association violates a law or regulation, a disposition by a government agency which is based on a law or regulation, or the articles of incorporation, the Prime Minister may order the Authorized Association to dismiss that officer.

(Provisional Board Members and Provisional Inspectors)

Article 71 If there is no one to perform the duties of a board member or inspector and the Prime Minister finds it to be necessary, the Prime Minister may appoint a provisional board member or provisional inspector.

(Duty of Confidentiality of the Officers and Employees)

Article 72 (1) It is prohibited for the officer or employee of an Authorized Association, or for a person that that has held one of these positions, to divulge or misappropriate any secret learned in the course of duty.

(2) It is prohibited for the officer or employee of an Authorized Association, or for a person that has held one of these positions, to use information learned in the course of duty for a purpose other than the business uses of the Authorized Association for which the information is provided.

#### **Subsection 4 Supervision**

(Order to Change the Articles of Incorporation, Operational Rules, etc.)

Article 73 If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors in connection with an Authorized Association's articles of incorporation or other rules, its trade practices, or its business operations or the state of its assets, the Prime Minister, within the scope of this necessity, may order the Authorized Association to change its articles of incorporation or other rules, to change its trade practices, or to otherwise take measures that are necessary from a supervisory perspective. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.

(Rescission of Authorization, Suspension of Business, and Dismissal of Officers, Due to Violation of Laws and Regulations)

Article 74 (1) If an Authorized Association violates a law or regulation, a disposition by a government agency which is based on a law or regulation, or its articles of incorporation or other rules (hereinafter referred to as a "Law or Regulation, etc." in this Article); or, even though an association member, a Financial Instruments Intermediary, or an Issuer of Over-the-Counter Traded Securities or tradable Securities has violated a Law or Regulation, etc. or engaged in an act that is contrary to the principle of good faith in transactions as specified in the articles of incorporation or other rules, the Authorized Association fails to exercise the powers accorded it under this Act, an order based on this Act, or its articles of incorporation or other rules, or to take other necessary measures to cause the person to observe Laws and Regulations, etc. or the principle of good faith in transactions; and the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may rescind its authorization for incorporation, order the suspension of all or a part of its business activities during a fixed period of no longer than one year, order a change to its business methods, issue an order prohibiting a part of its business activities, order the dismissal of its officers, or order it to take any necessary measures that are specified in the articles of incorporation or other rules.

(2) Irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, before seeking to order the suspension of all or a part of business activities, to order a change of business methods, to issue an order prohibiting a part of business activities, or to issue an order to take any necessary measures that are specified in the articles of incorporation or other rules pursuant to the

provisions of the preceding paragraph, the Prime Minister must conduct a hearing.

(Collection of Reports and Inspections)

Article 75 Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order an Authorized Association, an Issuer of Over-the-Counter Traded Securities or tradable Securities, or the person that an Authorized Association has entrusted with its business, to submit reports or materials that should serve as a reference with regard to the business or assets of the Authorized Association, and may have the relevant officials inspect the state of the business or assets, or the books and documents or any other articles, of an Authorized Association or the person that an Authorized Association has entrusted with its business (but may only have the relevant officials inspect the person that an Authorized Association has entrusted with its business as is necessary in connection with the business or assets of the Authorized Association).

(Documents to Be Submitted to the Prime Minister)

Article 76 An Authorized Association shall submit the following documents to the Prime Minister within three months from the day on which each business year begins:

- (i) the business summary report for the previous business year and the business plan for the current business year;
- (ii) the inventory of assets as of the end of the previous business year; and
- (iii) the statement of accounts for the previous business year and the budget statements for the current business year.

**Subsection 5 Miscellaneous Provisions**

(Responding to Complaints from Investors)

Article 77 (1) If an investor files for the resolution of a complaint involving business carried out by an association member or a Financial Instruments Intermediary, in addition to providing the claimant with the necessary advice and investigating the circumstances to which the complaint pertains based on its consultation with the claimant, the Authorized Association must notify the association member or Financial Instruments Intermediary of the substance and content of the complaint and request that it process the complaint expeditiously.

(2) If an Authorized Association finds that it is necessary in connection with the resolution of a complaint under a filing referred to in the preceding paragraph,

- it may request the relevant association member or Financial Instruments Intermediary to provide a written or oral explanation or submit materials.
- (3) If an association member or Financial Instruments Intermediary has had a request under the preceding paragraph from an Authorized Association, it must not refuse this request without just cause for doing so.
  - (4) An Authorized Association must fully inform its association members and Financial Instruments Intermediaries about any filing as referred to in paragraph (1), the circumstances to which the complaint pertains, and the outcome of its resolution.
  - (5) The provisions of paragraph (1) do not apply if an Authorized Association has obtained a designation under Article 156-39, paragraph (1) and the filing referred to in paragraph (1) is for a complaint in the Category of Dispute Resolution Services (meaning a Category of Dispute Resolution Services as prescribed in Article 156-38, paragraph (12); the same applies in paragraph (9) of the following Article (including as applied mutatis mutandis pursuant to Article 79-13) to which that designation pertains).

(Mediation by Authorized Associations)

- Article 77-2 (1) If there is a dispute about a purchase and sale or other transaction of Securities or about a Derivatives Transaction, etc. conducted by an association member or a Financial Instruments Intermediary, any of the parties to the transaction may file for mediation with an Authorized Association, for the purpose of attempting to resolve that dispute.
- (2) If an Authorized Association receives a filing under the preceding paragraph, it must appoint a mediator that has the relevant knowledge and experience and that has no special interest in the parties to the dispute subject to that filing (hereinafter referred to as the "Case" in this Article), and must refer the Case to mediation by that mediator; provided, however, that a mediator must not mediate if the mediator finds that the Case is not suited for mediation due to its nature, or that the party has filed for mediation for unjust purposes and without due cause.
  - (3) A mediator may hear the opinions of the parties and witnesses, request them to submit reports, and request the parties to submit books and documents or other articles that should serve as reference; and may prepare the mediation proposal that is needed to resolve the Case and recommend that the parties accept it, as the mediator finds appropriate.
  - (4) In the cases referred to in the preceding three paragraphs, if a Financial Instruments Intermediary is a party, its Entrusting Financial Services Provider, etc. is also deemed to be a party.
  - (5) If an association member or a Financial Instruments Intermediary has had a request under the provisions of paragraph (3), it must not refuse this request

without just cause.

- (6) An Authorized Association may collect from the parties all or part of the expenses incurred in relation to mediation.
- (7) It is prohibited for a mediator or former mediator to divulge or misappropriate any secret learned in the course of duty.
- (8) It is prohibited for a mediator or former mediator to use information learned in the course of duty for a purpose other than the business use of the Authorized Association for which the information is provided.
- (9) The provisions of paragraph (1) do not apply if an Authorized Association has obtained a designation under Article 156-39, paragraph (1) and the dispute referred to in paragraph (1) is in the Category of Dispute Resolution Services to which that designation pertains.

(Entrustment of Mediation Services to Third Parties)

Article 77-3 (1) An Authorized Association may entrust the complaint resolution services prescribed in Article 77, paragraph (1) and the mediation services prescribed in paragraph (1) of the preceding Article to a person that has a sufficient financial basis and personnel structure for performing these services in an appropriate manner.

- (2) Notwithstanding the provisions of the preceding paragraph, an Authorized Association may not entrust the complaint resolution services and mediation services referred to in that paragraph to a person that falls under one of the following items:
  - (i) a person that has been sentenced pursuant to any provision of this Act, if two years have not yet passed since the day on which the person finished serving that sentence or ceased to be subject to its enforcement;
  - (ii) a person whose authorization has been rescinded pursuant to Article 74, paragraph (1), if two years have not yet passed since the date of rescission; or
  - (iii) a person that has a person falling under one of the following as an officer conducting its business:
    - (a) a person that has been sentenced to imprisonment or a heavier punishment or that has been sentenced pursuant to any provision of this Act, if two years have not yet passed since the day on which the person finished serving that sentence or ceased to be subject to its enforcement; or
    - (b) a person that, during the 30 days before the date of rescission, was the officer of an Authorized Association whose authorization has been rescinded pursuant to Article 74, paragraph (1), if two years have not yet passed since the date of rescission.
- (3) A person entrusted with services pursuant to the provisions of paragraph (1) may not further entrust the services under that entrustment.

(4) The provisions of the preceding two Articles apply mutatis mutandis to the services entrusted by an Authorized Association pursuant to the provisions of paragraph (1).

(Educational Activities by Authorized Associations)

Article 77-4 An Authorized Association must endeavor to facilitate the sound development of the Financial Instruments Business and the protection of investors through the dissemination of financial knowledge and through educational and publicity campaigns.

(Registration of Associations)

Article 77-5 (1) An Authorized Association must register pursuant to the provisions of Cabinet Order.

(2) An Authorized Association is established by a registration of its incorporation being recorded in connection with the location of its principal office.

(3) The particulars that must be registered pursuant to the provisions of paragraph (1) may not be duly asserted against a third party until after their registration.

(Grounds for the Dissolution of an Association)

Article 77-6 (1) An Authorized Association is dissolved for the following reasons:

(i) the occurrence of a cause specified by the articles of incorporation;

(ii) a general meeting resolution;

(iii) the number of association members falls to five or below;

(iv) an order to commence bankruptcy proceedings; or

(v) the rescission of the authorization for incorporation of the Authorized Association.

(2) A general meeting resolution concerning the dissolution of an Authorized Association does not become effective without the authorization of the Prime Minister.

(3) If an Authorized Association has been dissolved pursuant to the provisions of item (i) or (iii) of paragraph (1), the former representative must notify the Prime Minister of this without delay.

(4) , If an order to commence bankruptcy proceedings or an order to terminate bankruptcy proceedings is issued with regard to an Authorized Association, or if the rescission of an order to commence bankruptcy proceedings, or an order to discontinue bankruptcy proceedings, becomes final and binding with regard to an Authorized Association, the court clerk must notify the Prime Minister of this.

(5) Beyond what is provided for in the preceding paragraphs, necessary particulars relevant to the dissolution of an Authorized Association are

specified by Cabinet Order.

(Delegation to Cabinet Office Ordinance)

Article 77-7 Procedures for the implementation of the provisions of Article 67 to the preceding Article inclusive and particulars that are otherwise necessary for their enforcement are specified by Cabinet Office Ordinance.

## **Section 2 Certified Financial Instruments Business Associations**

### **Subsection 1 Certification and Services**

(Certification of Certified Financial Instruments Business Associations)

Article 78 (1) The Prime Minister, pursuant to the provisions of Cabinet Order, may certify a general incorporated association that has been incorporated by a Financial Services Provider and that is found to satisfy the following requirements, to conduct the services set forth in the following paragraph, at the application of such a general incorporated association:

- (i) its aim is to ensure fair and smooth purchase and sales and other transactions of Securities and to ensure fair and smooth Derivatives Transactions, etc., as well as contributing to the sound development of the Financial Instruments Business and to the protection of investors;
  - (ii) its articles of incorporation stipulate that its members be Financial Services Providers;
  - (iii) it has established the necessary methods of business implementation for it to perform the services prescribed in the following paragraph properly and reliably; and
  - (iv) it has the necessary knowledge, ability, and financial basis for performing the services prescribed in the following paragraph properly and reliably.
- (2) A general incorporated association certified pursuant to the preceding paragraph (hereinafter referred to as a "Certified Financial Instruments Business Association" in this paragraph and the following Article) is to conduct the following services:
- (i) providing its members and Financial Instruments Intermediaries (limited to those whose Entrusting Financial Services Providers, etc. are its members; hereinafter the same applies in this Section) with guidance, recommendations, and other services in order to have them comply the provisions of this Act and other laws and regulations while operating in Financial Instruments Business;
  - (ii) conducting the necessary investigations and providing the necessary guidance, recommendations, and other services for ensuring the propriety of contracts and of asset management, and for otherwise protecting investors with regard to the Financial Instruments Business in which its members and

- Financial Instruments Intermediaries operate;
- (iii) investigating members' and Financial Instruments Intermediaries' compliance with this Act, orders that are based on this Act, dispositions that are based on this Act or on such orders, the articles of incorporation and other rules, and the principle of good faith in transactions;
  - (iv) resolving complaints filed by investors with regard to the Financial Instruments Business in which its members and Financial Instruments Intermediaries operate;
  - (v) resolving disputes arisen from the Financial Instruments Business in which its members and Financial Instruments Intermediaries operate;
  - (vi) carrying out the Registration Work that is done pursuant to Article 64-7, paragraph (1) (including as applied mutatis mutandis pursuant to Article 66-25) or Article 64-7, paragraph (2);
  - (vii) establishing the necessary rules and providing other services for ensuring propriety in its members' and Financial Instruments Intermediaries' solicitation in respect of purchase and sales and other transactions of Securities;
  - (viii) conducting public relations aimed at investors and providing other services that are necessary for the Certified Financial Instruments Business Association to achieve its purpose; and
  - (ix) services beyond what is set forth in the preceding items, which contribute to the sound development of the Financial Instruments Transaction Business and to the protection of investors.

(Furtherance of Investors Protection)

- Article 78-2 (1) A Certified Financial Instruments Business Association (hereinafter referred to as a "Certified Association" in this Chapter) must endeavor to further the sound development of the Financial Instruments Business and the protection of investors through the dissemination of financial knowledge, and through educational and publicity campaigns, in addition to what is set forth in the items of paragraph (2) of the preceding Article.
- (2) A Certified Association must make the membership list available for public inspection.
  - (3) A person that is not a Certified Association must not use a term in its name which could give rise to the misconception that it is a Certified Financial Instruments Business Association.

(Reporting to Certified Associations)

- Article 78-3 In a case set forth in one of the following items, the member of a Certified Association must report the particulars prescribed in that item to the Certified Association, pursuant to the provisions of Cabinet Office Ordinance:

- (i) a purchase and sale of Listed Share Certificates, etc. is made outside of a Financial Instruments Exchange Market and on the member's own account, or a purchase and sale of Listed Share Certificates, etc. is made outside of a Financial Instruments Exchange Market and the member provides intermediation, brokerage, or agency for it: the class, issue, price, volume, and other particulars specified by Cabinet Office Ordinance, with regard to the Listed Share Certificates, etc. that are subject to the purchase and sale; and
- (ii) the member makes an offer to sell or purchase Listed Share Certificates, etc. to a large number of persons simultaneously outside of a Financial Instruments Exchange Market, or in any other case specified by Cabinet Office Ordinance: the class, issue, price, volume, and other particulars specified by Cabinet Office Ordinance, with regard to the Listed Share Certificates, etc. subject to the offer to sell or purchase.

(Notice of Trading Volume, Price, etc.)

Article 78-4 Pursuant to the provisions of Cabinet Office Ordinance and based on the reports under the provisions of the preceding Article, a Certified Association shall notify its members of, and disclose to the public, the daily trading volume and the highest price, lowest price, closing price, and other particulars, for each day and for each issue, in respect of purchase and sales of Listed Share Certificates, etc. outside a Financial Instruments Exchange Market (limited to those made by its member on their own accounts, and those for which its members provide intermediation, brokerage, or agency; the same applies in the following Article).

(Reporting of Trading Volume, Price, etc.)

Article 78-5 Pursuant to the provisions of Cabinet Office Ordinance, a Certified Association shall report the daily trading volume and the highest price, lowest price, closing price, and other particulars, for each day and for each issue, in respect of purchase and sales of Listed Share Certificates, etc. outside of a Financial Instruments Exchange Market, to the Prime Minister.

(Responding to Complaints from Investors)

Article 78-6 The provisions of Article 77 apply mutatis mutandis to the resolution of investors' complaints by a Certified Association. In this case, in that Article, the term "association member" is deemed to be replaced with "member".

(Mediation by Certified Associations)

Article 78-7 The provisions of Article 77-2 apply mutatis mutandis to mediation

conducted by a Certified Association. In this case, in paragraphs (1) and (5) of that Article, the term "association member" is deemed to be replaced with "member".

(Entrustment of Mediation Services to a Third Party)

Article 78-8 (1) A Certified Association may entrust the complaint resolution services prescribed in Article 77, paragraph (1) as applied mutatis mutandis pursuant to Article 78-6 and the mediation services prescribed in Article 77-2, paragraph (1) as applied mutatis mutandis pursuant to the preceding Article to a person that has the financial basis and personnel structure to perform these services in an appropriate manner.

(2) Notwithstanding the provisions of the preceding paragraph, the complaint resolution services and mediation services referred to in that paragraph may not be entrusted to a person that falls under one of the following items:

(i) a person that has been sentenced pursuant to any provision of this Act, if two years have not yet passed since the day on which the person finished serving that sentence or ceased to be subject to its enforcement;

(ii) a person whose recognition has been rescinded pursuant to Article 79-6, paragraph (2), if two years have not yet passed since the date of the rescission; or

(iii) a person that has a person falling under one of the following as an officer conducting its business:

(a) a person that has been sentenced to imprisonment or a heavier punishment or has been sentenced pursuant to any provision of this Act, if two years have not yet passed since the day on which the person finished serving that sentence or ceased to be subject to its enforcement; or

(b) a person that, during the 30 days prior to the date of rescission, was the officer of a corporation whose recognition has been rescinded pursuant to Article 79-6, paragraph (2), if two years have not yet passed since the date of the rescission.

(3) A person entrusted with services pursuant to paragraph (1) may not further entrust the services under that entrustment.

(4) The provisions of Article 77 as applied mutatis mutandis pursuant to Article 78-6, and Article 77-2 as applied mutatis mutandis pursuant to the preceding Article, apply to the services performed by the person that a Certified Association entrusts with its services pursuant to paragraph (1).

(Duty of Confidentiality of the Officers and Employees)

Article 79 The provisions of Article 72 apply to the officers and employees of a Certified Association, and to any person that has held one of these positions.

## **Subsection 2 Supervision**

(Particulars Required to Be Included in the Articles of Incorporation)

Article 79-2 In addition to the matters set forth in the items of Article 11, paragraph (1) of the Act on General Incorporated Associations and General Incorporated Foundations (Act No. 48 of 2006) and the provisions of the articles of incorporation as set forth in Article 78, paragraph (1), item (ii), a Certified Association must stipulate in its articles of incorporation that if a member violates this Act, an order that is based on this Act, a disposition that is based on this Act or on such an order, or the articles of incorporation or other rules of the Certified Association, or if a member engages in an act that is contrary to the principle of good faith in transactions, the Certified Association will impose a surcharge on the member, order the suspension or restriction of its rights as a member as provided in the articles of incorporation, or expel it from the Certified Association.

(Operational Rules)

Article 79-3 (1) A Certified Association must establish rules concerning the following particulars and must obtain the authorization of the Prime Minister for the same. The same applies if the Certified Association seeks to change the rules:

- (i) the particulars of the services prescribed in Article 78, paragraph (2); and
- (ii) the particulars of the classes of share certificates, corporate bond certificates with share options, or Securities specified by Cabinet Office Ordinance (excluding Securities listed on a Financial Instruments Exchange and Over-the-Counter Traded Securities) with no prohibition on solicitation being carried out in respect of purchase and sales and other transactions.

(2) A Certified Association must notify the Prime Minister of any change in its officers or members without delay.

(Submission of Reports and On-Site Inspections)

Article 79-4 Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a Certified Association or the person that a Certified Association has entrusted with its business, to submit reports or materials that should serve as a reference with regard to the business or assets of the Certified Association or person, and may have the relevant officials enter the office of a Certified Association or the person that a Certified Association has entrusted with its business to inspect the state of its business or assets or its books and documents or any other articles (but may only have the relevant officials inspect the person that a Certified Association has entrusted with its

business as is necessary in connection with the business or assets of the Certified Association) or to question the relevant persons (but may only have the relevant officials question the person that a Certified Association has entrusted with its business as is necessary in connection with the business or assets of the Certified Association).

(Cooperation with the Prime Minister)

Article 79-5 For the purpose of promoting the smooth implementation of the provisions of this Section, the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, may have a Certified Association submit materials or make notifications as prescribed in the relevant provisions of this Section, or provide cooperation with regard to particulars that are otherwise necessary.

(Issuance of Supervision Orders against Certified Associations)

Article 79-6 (1) If the Prime Minister finds that improvement is needed in connection with the business operations of a Certified Association, the Prime Minister, within the scope that is necessary for the implementation of the provisions of this Section, may order the Certified Association to take measures that are necessary for this improvement.

(2) If the Prime Minister finds a Certified Association's business operations to be in violation of this Act, an order that is based on this Act, or a disposition that is based on this Act or on such an order, the Prime Minister may rescind its recognition or order the suspension of all or part of its business activities during a fixed period of no longer than six months.

### **Section 3 Certified Investor Protection Organizations**

(Purpose and Services of Certified Investor Protection Organizations)

Article 79-7 (1) A corporation (including an organization without legal personality for which a representative or administrator has been designated, and excluding an Authorized Association or a Certified Association; hereinafter the same applies in item (iii), sub-item (b) of the following Article) that seeks to provide the services set forth in each of the following items with the aim of ensuring fair and smooth purchase and sales and other transactions of Securities and of ensuring fair and smooth Derivatives Transactions, etc. as well as contributing to the sound development of the Financial Instruments Business and to the protection of investors, may obtain the certification of the Prime Minister:

(i) resolution of complaints about Financial Instruments Business that a Financial Services Provider or a Financial Instruments Intermediary engages in;

- (ii) mediation in the event of a dispute about Financial Instruments Business that a Financial Services Provider or a Financial Instruments Intermediary engages in; and
  - (iii) services beyond what is set forth in the preceding two items, which contribute to the sound development of the Financial Instruments Business and to the protection of investors.
- (2) A person seeking to obtain the certification referred to in the preceding paragraph must file an application with the Prime Minister pursuant to the provisions of Cabinet Order.
- (3) Upon granting the certification referred to in paragraph (1), the Prime Minister shall issue public notice of this.

(Ineligibility)

Article 79-8 A person that falls under one of the following items may not obtain the certification referred to in paragraph (1) of the preceding Article:

- (i) a person that has been sentenced pursuant to any provision of this Act, if two years have not yet passed since the day on which the person finished serving that sentence or ceased to be subject to its enforcement;
- (ii) a person whose certification has been rescinded pursuant to Article 79-19, paragraph (1), if two years have not yet passed since the date of the rescission; or
- (iii) a person that has a person falling under one of the following as an officer conducting its business (including the representative or administrator of an organization without legal personality for which a representative or administrator has been designated; hereinafter the same applies in this Article):
  - (a) a person that has been sentenced to imprisonment or a heavier punishment or that has been sentenced pursuant to any provision of this Act, if two years have not yet passed since the day on which the person finished serving that sentence or ceased to be subject to its enforcement; or
  - (b) a person that, during the 30 days prior to the date of rescission, was the officer of a corporation whose certification has been rescinded pursuant to Article 79-19, paragraph (1), if two years have not yet passed since the date of the rescission.

(Criteria for Certification)

Article 79-9 The Prime Minister must not grant a certification unless the Prime Minister finds that an application under Article 79-7, paragraph (2) conforms to all of the following items:

- (i) the applicant has established the necessary methods of business implementation for it to perform the services set forth in the items of Article

- 79-7, paragraph (1) properly and reliably;
- (ii) the applicant has the necessary knowledge, ability, and financial basis for it to perform the services set forth in the items of Article 79-7, paragraph (1) properly and reliably; and
  - (iii) if a person provides services other than what is set forth in one of the items of Article 79-7, paragraph (1), its provision of those services is unlikely to cause any unfairness in the services set forth in that item.

(Notification of the Discontinuation of Services)

- Article 79-10 (1) If a person that has received the certification referred to in Article 79-7, paragraph (1) (hereinafter referred to as the "Certified Investor Protection Organization" in paragraph (1) of the following Article) seeks to discontinue the services to which that certification pertains (hereinafter referred to as "Certified Services" in this Section), that person must notify the Prime Minister of this in advance, pursuant to the provisions of Cabinet Order.
- (2) If a notification under the provisions of the preceding paragraph is filed, the Prime Minister shall issue public notice of this.

(Covered Operators)

- Article 79-11 (1) A Certified Investor Protection Organization (hereinafter referred to as a "Certified Organization" in this Section) must have the Financial Services Providers and Financial Instruments Intermediaries that are its constituent members, as well as Financial Services Providers and Financial Instruments Intermediaries that agree to be covered by its Certified Services and any other person specified by Cabinet Office Ordinance, as its covered operators (meaning Financial Services Providers, Financial Instruments Intermediaries, and any other person specified by Cabinet Office Ordinance, that are covered by the services of the Certified Organization; hereinafter the same applies in this Section).
- (2) A Certified Organization must make a list of the covered operators available for public inspection.

(Complaint Processing by Certified Organizations)

- Article 79-12 The provisions of Article 77 apply mutatis mutandis when a Certified Organization works to resolve complaints from investors (limited complaints involving covered operators). In this case, in that Article, the term "association member or Financial Instruments Intermediary" is deemed to be replaced with "covered operators prescribed in Article 79-11, paragraph (1)".

(Mediation by Certified Organizations)

- Article 79-13 The provisions of Article 77-2, paragraphs (1) to (3) inclusive and

paragraphs (5) to (9) inclusive apply mutatis when a Certified Organization engages in mediation (limited to mediation involving covered operators). In this case, in paragraph (1) of that Article, the phrase "association member or Financial Instruments Intermediary" is deemed to be replaced with "covered operator as prescribed in Article 79-11, paragraph (1)" and the term "Derivatives Transactions, etc." is deemed to be replaced with "Derivatives Transactions, etc. (including transactions incidental to these and any other transactions specified by Cabinet Office Ordinance)"; and in paragraph (5) of that Article, the phrase "association member or Financial Instruments Intermediary" is deemed to be replaced with "covered operator as prescribed in Article 79-11, paragraph (1)".

(Mutatis Mutandis Application of the Duty of Confidentiality of the Officers and Employees)

Article 79-14 The provisions of Article 72 apply mutatis mutandis to the officers and employees of a Certified Organization, and to any person that has held one of these positions.

(Restriction on the Use of Names)

Article 79-15 A person that is not a Certified Organization must not use a name that refers to it as a Certified Investor Protection Organization, and must not use any other name that is confusingly similar to this.

(Collection of Reports)

Article 79-16 The Prime Minister may have a Certified Organization submit a report about its Certified Services, within the scope that this is necessary for implementing the provisions in this Section.

(Investor Protection Guidelines)

Article 79-17 (1) A Certified Organization must endeavor to prepare and publish guidelines that are in line with the purport of the provisions of this Act, with regard to the content of contracts for Financial Instruments Transactions by covered operators, the nature of asset management by covered operators, and particulars that are otherwise necessary for ensuring the protection of investors (hereinafter referred to as "Investor Protection Guidelines"), in order to ensure the sound development of the Financial Instruments Business and the protection of investors.

(2) Once a Certified Organization publishes Investor Protection Guidelines pursuant to the preceding paragraph, it must endeavor to provide the covered operators with the necessary guidance and recommendations, and take other measures for having the covered operators comply with the Investor Protection

Guidelines.

- (3) A Certified Organization must endeavor to further the sound development of the Financial Instruments Business and the protection of investors through the dissemination of financial knowledge and through educational and publicity campaigns.

(Orders)

Article 79-18 The Prime Minister may order a Certified Organization to improve the implementation methods of its Certified Services, to change the Investor Protection Guidelines, and to take any other necessary measures, within the scope that this is necessary for implementing the provisions in this Section.

(Rescission of Certification)

Article 79-19 (1) If a Certified Organization falls under one of the following items, the Prime Minister may rescind its certification:

- (i) it comes to fall under Article 79-8, item (i) or (iii);
- (ii) it no longer conforms to one of the items of Article 79-9;
- (iii) it fails to comply with an order under the provisions of the preceding Article; or
- (iv) it has obtained Article 79-7, paragraph (1) certification by wrongful means.

(2) Upon rescinding a certification pursuant to the provisions of the preceding paragraph, the Prime Minister must issue public notice of this.

## **Chapter IV-2 Investor Protection Funds**

### **Section 1 General Provisions**

(General Customers)

Article 79-20 (1) The term "General Customer" as used in this Chapter means a customer of a Financial Services Provider's (limited to a Financial Services Provider that conducts Securities Services prescribed in Article 28, paragraph (8); hereinafter the same applies in this Chapter) head office or other domestic business office or office (with regard to a Financial Services Provider that is a foreign judicial person, its business office or office in Japan) which conducts a Transaction Related to Subject Securities with that Financial Services Provider (excluding the qualified institutional investors, states, local governments, and other persons specified by Cabinet Order).

(2) Notwithstanding the provisions of the preceding paragraph, if a first Financial Services Provider conducts a Transaction Related to Subject Securities with a second Financial Services Provider on the account of the first Financial Services Provider's General Customer, the first Financial Services Provider is deemed to be the General Customer of the second Financial

Services Provider, and the provisions of this Chapter apply.

- (3) The term "Customer Assets" as used in this Chapter means the following:
- (i) the money and Securities that a General Customer deposits with a Financial Services Provider pursuant to the provisions of Article 119 (limited those deposited in connection with Transactions of Securities-Related Derivatives) and money and Securities that a General Customer deposits with a Financial Services Provider pursuant to the provisions of Article 161-2;
  - (ii) money on the account of a General Customer and money that a General Customer deposits with a Financial Services Provider (other than money prescribed in the preceding item) in connection with a transaction linked to the Financial Instruments Business (limited to Securities Services prescribed in Article 28, paragraph (8); hereinafter the same applies in this Chapter) (excluding Over-the-Counter Derivatives Transactions or other transactions specified by Cabinet Order; the same applies in the following item);
  - (iii) Securities on the account of a General Customer or Securities that a General Customer deposits with a Financial Services Provider (other than Securities prescribed in item (i), Securities that a Financial Services Provider may expend pursuant to a contract, and Securities specified by Cabinet Order), in connection with a transaction linked to the Financial Instruments Business; and
  - (iv) anything other than what is set forth in the preceding three items, which is specified by Cabinet Order.

(Purpose)

Article 79-21 The purpose of an Investor Protection Fund (hereinafter referred to as a "Fund" in this Chapter and the Supplementary Provisions) is to ensure the protection of investors through payments to General Customers pursuant to the provisions of Article 79-56, paragraph (1) and through other services, thereby maintaining the credibility of securities transactions.

(Legal Personality and Address)

Article 79-22 (1) Funds is a juridical person.

(2) The address of a Fund is the address at which its principal office is located.

(Name)

Article 79-23 (1) A Fund must use the characters "toushisha hogo kikin" (meaning "investor protection fund") in its name.

(2) A person that is not a Fund must not use the characters "toushisha hogo kikin" in its name.

(Registration)

Article 79-24 (1) A Fund must register pursuant to the provisions of Cabinet Order.

(2) Particulars that must be registered pursuant to the provisions of the preceding paragraph may not be asserted against a third party until after their registration.

(Capacity in Respect of Tortious Acts)

Article 79-25 A Fund is liable for the damages that its president or board members cause another person in the performance of their duties.

## **Section 2 Members**

(Eligibility for Membership)

Article 79-26 (1) The scope of persons eligible for membership in a Fund is limited to Financial Services Providers.

(2) If a Financial Services Provider seeks to join a Fund, the Fund must not refuse it and must not attach unreasonable conditions to its joining the Fund, unless entry into the Fund is restricted for a special reason related to business type or for any other legitimate reason.

(Obligation to Join)

Article 79-27 (1) A Financial Services Provider (excluding one that is specified by Cabinet Order) must join any single Fund, as a member.

(2) A person seeking to engage in Financial Instruments Business after obtaining Article 29 registration or an Article 31, paragraph (4) registration of a change (excluding a person specified by Cabinet Order) must go through the process for joining any single Fund at the same time as applying for the registration or the registration of the change.

(3) A person that has gone through the process for joining a Fund pursuant to the provisions of the preceding paragraph becomes a member of that Fund at the time that the person becomes registered or has the change registered as referred to in that paragraph.

(4) When a Financial Services Provider joins a Fund or if it changes the Fund to which it belongs, it must notify the Prime Minister of this without delay.

(Withdrawal)

Article 79-28 (1) A Financial Services Provider that is a member of a Fund is withdrawn from the Fund to which it belongs by operation of law for the following reasons:

(i) discontinuation of a Financial Services Provider's Financial Instruments Business (this includes an Article 31, paragraph (4) registration of a change

- indicating that the Financial Services Provider no longer provides Securities Services, and also includes a foreign corporation's discontinuation of Financial Instruments Business at all of the business offices and offices it has established in Japan) or the dissolution of the Financial Services Provider (with regard to a Financial Services Provider which is a foreign corporation, this includes the commencement of liquidation at a business office or office it has established in Japan); or
- (ii) the Article 52, paragraph (1) or (4); Article 53, paragraph (3); Article 54; or Article 57-6, paragraph (3) rescission of an Article 29 registration.
- (2) A person that is withdrawn from a Fund pursuant to the provisions of the preceding paragraph is deemed to continue to be a Financial Services Provider and a member of that Fund for the purpose of the application of Articles 79-52 to 79-61 inclusive.
  - (3) A Financial Services Provider may not withdraw from the Fund to which it belongs unless the withdrawal is for a cause set forth in one of the items of paragraph (1) or unless it becomes the member of another Fund with the approval of the Prime Minister and the Minister of Finance.
  - (4) Even if a Financial Services Provider withdraws from the Fund to which it belongs (excluding a case of withdrawal pursuant to the provisions of paragraph (1)), it incurs the obligation to pay the amount calculated by the Fund pursuant to the provisions of its operational rules in dues, for the amount of costs that the withdrawn Financial Services Provider is required to bear out of the amount of the costs required for the services the Fund provides for the Financial Services Provider in connection with any notice under the provisions of Article 79-53, paragraph (1) or paragraphs (3) to (5) inclusive, that said Fund receives up until the Operator's withdrawal from the Fund.
  - (5) Whenever an application is filed for the approval referred to in paragraph (3), the Prime Minister and the Minister of Finance must not grant that approval unless the following requirements are satisfied:
    - (i) the Financial Services Provider has repaid in full the obligation it bears as a member, to the Fund from which it seeks to withdraw, by the time of filing the application for approval, and its performance of the obligation prescribed in the preceding paragraph is expected to be reliable; and
    - (ii) the Financial Services Provider gone through the process for joining another Fund as a member.

### **Section 3 Incorporation**

(Requirements for Incorporation)

Article 79-29 (1) In order to incorporate a Fund, 20 or more Financial Services Providers that seek to become its members must become the founders.

- (2) After preparing the articles of incorporation and operational rules, the founders must invite persons seeking to become members, and hold an organizational meeting, issuing public notice of the articles of incorporation and operational rules as well as the date, time, and place of the meeting by two weeks prior to the day of the meeting.
- (3) Approval of the articles of incorporation and operational rules and decisions about matters that are otherwise necessary for the incorporation of a Fund must be effected by organizational meeting resolution.
- (4) The articles of incorporation and operational rules may be revised at an organizational meeting.
- (5) The items of organizational meeting business that are referred to in paragraph (3) are decided with at least a two-thirds majority of the votes of attendees, at a meeting where at least half of the Financial Services Providers that have proposed themselves as members to the founders before the opening of the meeting (hereinafter, each such Financial Services Provider is referred to as an "Expected Member" in this Article) and the founders, are present.
- (6) Notwithstanding the provisions of Article 79-42, paragraph (1), matters that are necessary for business operations in the business year that includes the day of establishment of a Fund (including the budget and financial plan) may be decided by organizational meeting resolution.
- (7) The provisions of Article 79-43 apply mutatis mutandis to the items of business at an organizational meeting that are referred to in the preceding paragraph. In this case, in that Article, the term "all members" is deemed to be replaced with "the Financial Services Providers that have proposed themselves as members to the founders before the opening of the meeting, and the founders".
- (8) Each of the Expected Members holds an equal voting right for organizational meetings.
- (9) An Expected Member not attending an organizational meeting may vote in writing or by proxy.
- (10) The provisions of the preceding two paragraphs do not apply if it is otherwise provided for in the articles of incorporation.
- (11) If an organizational meeting resolution concerns the relationship between a Fund and a specific Expected Member, that Expected Member has no voting right.

(Application for Authorization)

Article 79-30 (1) Founders must obtain authorization for incorporation by submitting a written application for authorization to the Prime Minister and the Minister of Finance, in which the founders give the following particulars, without delay after the completion of the organizational meetings:

- (i) the name;
  - (ii) the location of the office; and
  - (iii) the names of officers and members.
- (2) The articles of incorporation, operational rules, and other documents specified by Cabinet Office Ordinance and Ordinance of the Ministry of Finance must accompany the written application for authorization referred to in the preceding paragraph.

(Examination Criteria for Authorization)

Article 79-31 (1) Whenever an application is filed for the authorization under the provisions of paragraph (1) of the preceding Article, the Prime Minister and the Minister of Finance shall examine whether the application conforms to the following criteria:

- (i) procedures for incorporation and the content of the articles of incorporation and operational rules conform to laws and regulations;
  - (ii) there is no false statement in the written application for authorization, the articles of incorporation, or the operational rules;
  - (iii) a person falling under any of sub-items (a) to (g) inclusive of Article 29-4, paragraph (1), item (ii) is not an officer;
  - (iv) the Fund to which the application pertains is found to have the necessary assets for it to conduct its business or it is found to be possible to rely upon the Fund having such assets;
  - (v) it is found to be possible to rely upon business operations being conducted properly; and
  - (vi) the organization of the Fund to which the application pertains conforms to the provisions of this Act.
- (2) If, as a result of having conducted an examination pursuant to the provisions of the preceding paragraph, the Prime Minister and the Minister of Finance find that an application conforms to the criteria in that paragraph, they shall authorize incorporation.
- (3) If an application is filed for the authorization under the provisions of paragraph (1) of the preceding Article and the Prime Minister and the Minister of Finance find it inappropriate to grant that authorization, they shall notify the applicant for authorization and have the relevant officials conduct a hearing.
- (4) Upon deciding to grant or not to grant authorization for incorporation, the Prime Minister and the Minister of Finance shall notify the applicant for authorization of this in writing without delay.

(The Handing Over of Administrative Affairs to the President)

Article 79-32 Upon having authorization for incorporation, the founders must

hand over administrative affairs to the person that is to become the president, without delay.

(Registration)

Article 79-33 (1) A Fund is established by a registration of incorporation being recorded in connection with the location of its principal office.

(2) Once the registration of incorporation referred to in the preceding paragraph has been made, the Fund must notify the Prime Minister and the Minister of Finance of this without delay.

#### **Section 4 Management**

(Particulars Required to Be Included in the Articles of Incorporation)

Article 79-34 (1) The articles of incorporation of a Fund must include the following particulars:

(i) its purposes;

(ii) its name;

(iii) the location of its offices;

(iv) the particulars of its members (if it restricts membership based on a special cause, etc. involving business type, this includes the special cause, etc.);

(v) the particulars of its general meetings;

(vi) the particulars of its officers;

(vii) the particulars of its governing board;

(viii) the particulars of its business and business execution;

(ix) the particulars of dues;

(x) the particulars of its finance and accounting;

(xi) the particulars involved in changing the articles of incorporation;

(xii) the particulars of dissolution; and

(xiii) the means of public notice.

(2) A change to the articles of incorporation does not become effective without the authorization of the Prime Minister and the Minister of Finance.

(3) If a particular set forth in Article 79-30, paragraph (1), item (ii) or (iii) changes, the Fund must notify the Prime Minister and the Minister of Finance of this without delay.

(Officers)

Article 79-35 (1) A Fund has one president, two or more board members, and one or more inspectors as its officers.

(2) The business of a Fund is decided by majority among the president and board members, unless otherwise provided for in laws and regulations or the articles

of incorporation.

(Authority of an Officer)

- Article 79-36 (1) The president represents the Fund and presides over its business.
- (2) A board member, pursuant to the provisions of the articles of incorporation, represents the Fund, assists the president in administering the business of the Fund, acts as a proxy in handling the duties of the president if the president is unable to attend to them, and performs the duties of the president if the position is vacant.
- (3) An inspector examines the business of the Fund.
- (4) An inspector may submit an opinion to the president or to the Prime Minister and the Minister of Finance based on the results of an examination if the auditor finds this to be necessary.
- (5) An officer loses the position of officer upon coming to fall under one of the categories in Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive.

(Appointment, Term of Office, and Dismissal of Officers)

- Article 79-37 (1) Officers are appointed and dismissed at a general meeting pursuant to the provisions of the articles of incorporation; provided, however, that the officers at the time of incorporation are appointed at an organizational meeting.
- (2) The appointment (excluding the appointment of the officers at the time of incorporation) or dismissal of the officer of a Fund under the provisions of the preceding paragraph does not become effective without the authorization of the Prime Minister and the Minister of Finance.
- (3) The term of office of an officer is a period specified by the articles of incorporation not exceeding two years.
- (4) Officers may be reappointed.
- (5) If an officer is discovered to have become an officer by wrongful means or if an officer violates a law or regulation, a disposition by a government agency which is based on a law or regulation, or the articles of incorporation, the Prime Minister and the Minister of Finance may order the Fund to dismiss that officer.

(Prohibition on the Concurrent Holding of Positions by Auditors)

Article 79-38 An inspector must not concurrently hold the position of president, board member, member of the governing board, or employee of the Fund.

(Restrictions on the Authority of Representation)

Article 79-39 The president and board members have no authority of

representation with regard to a matter that constitutes a conflict of interests between the president or a board member and the Fund. In such a case, an auditor represents the Fund.

(Provisional Board Members and Provisional Auditors)

Article 79-40 If there is no one to perform the duties of a board member or an inspector and the Prime Minister and the Minister of Finance find it to be necessary, they may appoint a provisional board member or provisional inspector .

(General Meetings)

Article 79-41 (1) The president must call an ordinary general meeting once every business year, pursuant to the provisions of the articles of incorporation.

(2) The president may call an extraordinary general meeting whenever the president finds this to be necessary.

(3) A Fund shall report general meeting resolutions to the Prime Minister and the Minister of Finance.

(4) The Prime Minister and the Minister of Finance may have the relevant officials attend a general meeting and state their opinions.

(Matters for General Meeting Resolution)

Article 79-42 (1) The following matters, beyond those that are otherwise prescribed in this Chapter, require a general meeting resolution:

(i) a change in the articles of incorporation;

(ii) a decision on or change in the budget or financial plan;

(iii) a change in the operational rules;

(iv) the settlement of accounts;

(v) dissolution; and

(vi) material matters beyond those that are otherwise set forth in the preceding items, which are specified by the articles of incorporation.

(2) The members, at a general meeting, may request an inspector to examine the business of the Fund and report the results of the examination.

(General Meeting Decisions)

Article 79-43 A general meeting decision is effected with over half of the votes of the attendees, at a meeting where at least half of all members are present, and by the chairperson in the case of a tie; provided, however, that a decision on a matter set forth in paragraph (1), item (i), (iii), or (v) of the preceding Article is decided with at least a two-thirds majority of the votes of the attendees.

(Extraordinary General Meetings)

Article 79-44 If at least one-fifth of the members specify the purpose of a general meeting and demand that one be called, the board members must call an extraordinary general meeting; provided, however, that a proportion different from one-fifth of the members may be specified in the articles of incorporation.

(The Calling of a General Meeting)

Article 79-44-2 A convocation notice for a general meeting must specify the purpose of the general meeting, and must be issued as specified by the articles of incorporation by at least five days prior to the day of the meeting.

(Matters for General Meeting Resolution)

Article 79-44-3 Only the matters for which advance notice has been given pursuant to the provisions of the preceding Article may be resolved at a general meeting; provided, however, that, this does not apply if it is otherwise provided for in the articles of incorporation.

(Voting Rights of Members)

Article 79-44-4 (1) Each of the members holds an equal voting right.  
(2) A member not attending a general meeting may vote in writing or by proxy.  
(3) The provisions of the preceding two paragraphs do not apply if it is otherwise provided for in the articles of incorporation.

(When a Member Has No Voting Right)

Article 79-44-5 If a resolution concerns the relationship between a Fund and a specific member, that member has no voting right.

(Governing Council)

Article 79-45 (1) A Fund sets in place a governing council (hereinafter referred to as the "Council") in order to further the appropriate operation of the business of the Fund.  
(2) In the following cases, the president must hear the opinions of the Council in advance:  
(i) before granting a recognition pursuant to the provisions of Article 79-54;  
(ii) before specifying the matters that are required to be specified pursuant to the provisions of Article 79-55, paragraph (1);  
(iii) before making a decision on whether to provide a loan under the provisions of Article 79-59; and  
(iv) other cases specified by the articles of incorporation as cases in which material matters concerning the Fund's business operation are decided.  
(3) A Council comprises of no more than eight members.  
(4) The members are appointed by the president from among persons that have

the necessary knowledge and experience to appropriately operate the business of the Fund, with the authorization of the Prime Minister and the Minister of Finance.

(5) The provisions of Article 79-41, paragraph (4) apply mutatis mutandis to the Council.

(Appointment of Employees)

Article 79-46 The employees of a Fund are appointed by the president.

(Duty of Confidentiality of the Officers and Employees)

Article 79-47 (1) It is prohibited for the officer or employee of a Fund, a member of the Council, or a person that has held one of these positions, to divulge or misappropriate any secret learned in the course of duty.

(2) It is prohibited for the officer or employee of a Fund, a member of the Council, or a person that has held one of these positions, to utilize information learned in the course of duty for a purpose other than the business use of the Fund for which the information is provided.

(Position of Officers and Employees)

Article 79-48 With regard to the application of the Penal Code and other penal provisions, the officers and employees of a Fund and the members of a Council are deemed to be officials who are engaged in public service pursuant to laws and regulations.

## **Section 5 Services**

(Scope of Services)

Article 79-49 A Fund provides the following services in order to achieve the purpose prescribed in Article 79-21:

- (i) the payment of General Customers under the provisions of Article 79-56, paragraph (1);
- (ii) the lending of funds under the provision of Article 79-59, paragraph (1);
- (iii) judicial or non-judicial act prescribed in Article 79-60, paragraph (1);
- (iv) services for contributing to the expeditious refunding of Customer Assets prescribed in Article 79-61;
- (v) collection and management of dues (meaning the dues prescribed in Article 79-28, paragraph (4) and Article 79-64, paragraph (1); the same applies in Article 79-51, paragraph (1));
- (vi) the submission of the customer lists under the provisions of Chapter IV, Section 5, Chapter V, Section 3 and Chapter VI, Section 3 of the Act on Special Treatment of Corporate Reorganization Proceedings and Other

Insolvency Proceedings of Financial Institutions (Act No. 95 of 1996) and other services under those provisions; and  
(vii) services incidental to the services set forth in the preceding items.

(Entrustment of Services)

Article 79-50 (1) A Fund may entrust part of its services to a Financial Instruments Business Association (meaning an Authorized Financial Instruments Business Association or Certified Financial Instruments Business Association prescribed in Article 78, paragraph (2); the same applies in the following paragraph) or a Financial Services Provider with the advance authorization of the Prime Minister and the Minister of Finance.

(2) Notwithstanding the provisions of this Act or other laws and regulations, if the authorization prescribed in the preceding paragraph is granted, the Financial Instruments Business Association or Financial Services Provider may be entrusted with the services to which that authorization pertains and perform those services.

(Operational Rules)

Article 79-51 (1) The operational rules of a Fund must state the particulars of the payments to General Customers under the provisions of Article 79-56, paragraph (1), the particulars of the method of calculation of dues and their payment, and other matters specified by Cabinet Office Ordinance and Ordinance of the Ministry of Finance.

(2) A Fund must obtain the authorization of the Prime Minister and the Minister of Finance if it seeks to change its operational rules.

(Submission of Reports and Materials)

Article 79-52 (1) Whenever it is necessary in order for a Fund to perform its services, that Fund may request a Financial Services Provider that is its member to submit reports or materials that should serve as a reference with regard to the state of the business or assets of that Financial Services Provider.

(2) A Financial Services Provider that has been requested to submit reports or materials that should serve as a reference with regard to the state of its business or assets pursuant to the provisions of the preceding paragraph, must submit the reports or materials without delay.

(3) The Prime Minister may issue materials to a Fund or allow a Fund to inspect the same, if the Fund has so requested and the Prime Minister finds this to be particularly necessary in order for the Fund to perform its services.

(Notifying the Fund)

Article 79-53 (1) If a Financial Services Provider that is a member of a Fund

falls under one of the following items, it must immediately notify the Fund to which it belongs of this:

- (i) its Article 29 registration is rescinded pursuant to the provisions of Article 52, paragraph (1); Article 53, paragraph (3); Article 54; or Article 57-6, paragraph (3);
  - (ii) it files a petition to commence bankruptcy proceedings, rehabilitation proceedings, Reorganization proceedings, or special liquidation proceedings (or it makes an Article 31, paragraph (4) registration of a change indicating that it no longer provides Securities Services; or if the Financial Services Provider is a foreign corporation, it files a petition to commence bankruptcy proceedings, rehabilitation proceedings, reorganization proceedings, or special liquidation proceedings in Japan, or a petition of the same kind in the state where its head office is located based on the laws and regulations of that state);
  - (iii) it discontinues its Financial Instruments Business (with regard to a Financial Services Provider that is a foreign corporation, this includes the discontinuation of Financial Instruments Business at all business offices and offices it has established in Japan; hereinafter the same applies in this item) or is dissolved (with regard to a Financial Services Provider that is a foreign corporation, this includes the commencement of liquidation of the business offices and offices it has established in Japan) or it issues a public notice of its discontinuation of Financial Instruments Business, etc. under the provisions of Article 50-2, paragraph (6) or of its dissolution; or
  - (iv) it becomes subject to an order for the suspension of all or a part of business activities under the provisions of Article 52, paragraph (1) (limited to a case falling under item (vii) of that paragraph).
- (2) If a Fund receives a notice under the provisions of the preceding paragraph, it must immediately report this to the Prime Minister and the Minister of Finance.
- (3) If the Prime Minister issues one of the following dispositions with regard to a Financial Services Provider that is a member of a Fund, the Prime Minister must immediately notify the Minister of Finance and the Fund to which that Financial Services Provider belongs of this:
- (i) the Article 52, paragraph (1) or (4); Article 53, paragraph (3); Article 54; or Article 57-6, paragraph (3) rescission of an Article 29 registration; or
  - (ii) an order for the suspension of all or a part of business activities under the provisions of Article 52, paragraph (1) (limited to a case falling under item (vii) of that paragraph).
- (4) Upon filing with the court a petition to commence bankruptcy proceedings under the provisions of Article 490, paragraph (1) of the Act on Special Treatment of Corporate reorganization Proceedings and Other Insolvency

Proceedings of Financial Institutions against a Financial Services Provider that is a member of a Fund, the Prime Minister must immediately notify the Minister of Finance and the Fund to which the Financial Services Provider belongs of this.

- (5) If the Prime Minister receives a notice under the provisions of Article 379, paragraph (2); Article 448, paragraph (2); or Article 492 of the Act on Special Treatment of Corporate Reorganization Proceedings and Other Insolvency Proceedings of Financial Institutions or any other notice concerning special liquidation proceedings with regard to a Financial Services Provider that is a member of a Fund, the Prime Minister must immediately notify the Minister of Finance and the Fund to which the Financial Services Provider belongs of this.

(Finding of Difficulty in Payment)

Article 79-54 If a Fund receives a notice under the provisions of paragraph (1) or paragraphs (3) to (5) inclusive of the preceding Article, it must, without delay, reach a finding as to whether it is difficult for the Financial Services Provider to which the notice pertains (hereinafter referred to as a "Financial Services Provider That Is the Subject of a Notice") to smoothly perform its obligations in connection with the refunding of Customer Assets, unless it is found to be clearly unlikely that not reaching such a finding would result in insufficient investor protection.

(Public Notice of Finding)

Article 79-55 (1) If a Fund, pursuant to the provisions of the preceding Article, reaches the finding that it is difficult for a Financial Services Provider That Is the Subject of a Notice to smoothly perform its obligations in connection with the refunding of Customer Assets, it must promptly specify the period and place of notification set forth in paragraph (1) of the following Article and other matters specified by Cabinet Order and issue public notice of the same.

- (2) If a public notice under the provisions of Article 197, paragraph (1) of the Bankruptcy Act (Act No. 75 of 2004) (including as applied mutatis mutandis pursuant to Article 209, paragraph (3) of that Act) or a notice under the provisions of paragraph (5) is issued or if any other cause specified by Cabinet Order occurs with regard to a Financial Services Provider that is subject to the finding referred to in the preceding paragraph (hereinafter referred to as a "Distressed Financial Services Provider") after the Fund has issued public notice pursuant to the provisions of the preceding paragraph, the Fund may change the period of notification with regard to which it has issued the public notice pursuant to the provisions of that paragraph.

- (3) If a Fund changes the period of notification pursuant to the provisions of the preceding paragraph, it must issue public notice of the particulars of the

change without delay.

- (4) When a Fund specifies the matters prescribed in paragraph (1) or if it changes the period of notification pursuant to the provisions of paragraph (2), it must immediately report this to the Prime Minister and the Minister of Finance.
- (5) The bankruptcy trustee must notify the Fund upon providing the notice under the provisions of Article 197, paragraph (1) (including as applied mutatis mutandis pursuant to Article 209, paragraph (3) of the Bankruptcy Act) or Article 204, paragraph (2) of the Bankruptcy Act or upon receipt of permission under the provisions of Article 208, paragraph (1) of that Act in connection with the bankruptcy proceedings of the Financial Services Provider That Is Subject to the Finding.

(Payment of Claims to Be Compensated)

Article 79-56 (1) At the request of the General Customer of a Distressed Financial Services Provider, the Fund is to pay the amount calculated pursuant to the provisions of Cabinet Office Ordinance and Ordinance of the Ministry of Finance on any claim that the General Customer has against the Financial Services Provider That Is Subject to the Finding as of the day that the Fund issues public notice pursuant to the provisions of paragraph (1) of the preceding Article (limited to a claim for the Customer Assets of said General Customer), and which the Fund, pursuant to the provisions of Cabinet Order, finds would be difficult for the Financial Services Provider That Is Subject to the Finding to smoothly pay (hereinafter referred to as "Claims to Be Compensated").

- (2) Notwithstanding the provisions of the preceding paragraph, a Fund is not to make the payment referred to in that paragraph to the officer of a Distressed Financial Services Provider or to any other person specified by Cabinet Order.
- (3) A request set forth in paragraph (1) may only be made within the period of notification for which public notice is issued pursuant to the provisions of paragraph (1) or (3) of the preceding Article; provided, however, that this does not apply if there has been a natural disaster or if the Fund otherwise finds there to be a compelling reason for the failure to make a request within the period of notification.

(Amount of Payment)

Article 79-57 (1) Notwithstanding the provisions of paragraph (1) of the preceding Article, if the General Customer of a Distressed Financial Services Provider which makes the request set forth in that paragraph falls under one of the following items, the amount that must be paid by the Fund pursuant to the provisions of that paragraph is equivalent to the amount under the

provisions of that paragraph less the amount provided for in the relevant item:

- (i) if the General Customer has provided the whole or a part of the Customer Assets that are under the Claim to Be Compensated as the subject matter of a security interest: the amount of the relevant whole or part of the Customer Assets provided as the subject matter of the security interest, as valued pursuant to the provisions of Cabinet Office Ordinance and Ordinance of the Ministry of Finance (or, if that amount exceeds the amount of the secured claim connected with the security interest, the amount of the secured claim connected with that security interest);
  - (ii) if the General Customer has incurred an obligation to the Financial Services Provider That Is Subject to the Finding: the amount of the obligation (or, if the General Customer falls under the preceding item in connection with that obligation, the amount of the obligation less the amount provided for in that item); or
  - (iii) if the Customer Assets that are subject to the Claim to Be Compensated include a Claim to Be Compensated prescribed in Article 60, paragraph (1) of the Act on the Book-Entry of Corporate Bonds: the amount of Customer Assets equivalent to the Claims to Be Compensated set forth in that paragraph, as valued pursuant to the provisions of Cabinet Office Ordinance and Ordinance of the Ministry of Finance (or, if the provisions of paragraph (5) of that Article apply to those Customer Assets, that amount less the amount of payment reduced pursuant to the provisions of that paragraph).
- (2) With regard to the application of paragraph (1) of the preceding Article and the provisions of the preceding paragraph if a Financial Services Provider is deemed to be a General Customer pursuant to the provisions of Article 79-20, paragraph (2), each General Customer of the Financial Services Provider which causes the Financial Services Provider to be deemed a General Customer has the position of a General Customer.
- (3) If the amount that must be paid pursuant to the provisions of paragraph (1) of the preceding Article and paragraph (1) exceeds the amount specified by Cabinet Order, the amount specified by Cabinet Order is the amount that must be paid.
- (4) If a Fund makes the payment referred to in paragraph (1) of the preceding Article, it acquires a Claim to Be Compensated in connection with that payment and in line with the amount it pays, pursuant to the provisions of Cabinet Order.

(Application of the Income Tax Act)

Article 79-58 (1) If a General Customer is an individual and that individual receives a payment set forth in Article 79-56, paragraph (1) on a Claim to Be Compensated that the individual holds against a Distressed Financial Services

Provider (limited to a claim involving Securities; hereinafter the same applies in this paragraph), the Securities under the Claim to Be Compensated that is connected with that payment (limited to the part of the Claim to Be Compensated that the Fund acquires based on that payment) are deemed to transfer from the individual to the Fund that makes the payment, based on the amount of payment that the individual receives and at the time the individual receives that payment, and the provisions of the Income Tax Act (Act No. 33 of 1965) and other laws and regulations concerning income tax apply.

- (2) Necessary particulars relevant to the application of the special provisions of Article 4-2 and Article 4-3 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957) in a case to which the provisions of the preceding paragraph are applicable are specified by Cabinet Order.

(Loans of Funds for Refunds)

Article 79-59 (1) At the application of a Financial Services Provider That Is the Subject of a Notice (excluding a Distressed Financial Services Provider g) or the agent of the beneficiary of a trust prescribed in Article 43-2, paragraph (2) that is connected to a Financial Services Provider That Is the Subject of a Notice, a Fund may loan the necessary funds for the expeditious performance of obligations connected with the refunding of Customer Assets (hereinafter referred to as a "Loan of Funds for Refunds") to such a person, within the limits of the amount that is found to be necessary.

- (2) A person that files an application for a Loan of Funds for Refunds must be recognized by the Prime Minister to satisfy all of the following requirements with regard to the relevant Loan of Funds for Refunds (hereinafter such a recognition is referred to as "Recognition of Eligibility" in this Article), by the time it files that application:

(i) providing a Loan of Funds for Refund is found to be necessary for the expeditious performance of obligations connected with the refund of Customer Assets; and

(ii) it is found to be possible to rely upon the proceeds of a Loan of Funds for Refund being used for the expeditious performance of obligations connected with the refund of Customer Assets.

- (3) Upon granting a Recognition of Eligibility, the Prime Minister shall notify the Minister of Finance and the Fund to which the Financial Services Provider that has obtained the Recognition of Eligibility belongs (or, if the agent of the beneficiary of a trust prescribed in Article 43-2, paragraph (2) that involves a Financial Services Provider has obtained that recognition, the Financial Services Provider) of this.

- (4) Upon receiving an application for a Loan of Funds for Refunds, a Fund must decide whether to provide the Loan of Funds for Refunds to which that

application pertains.

- (5) When a Fund has made the decision referred to in the preceding paragraph, it shall immediately report the particulars of the decision to the Prime Minister and the Minister of Finance.

(Preservation of the Claims of General Customers)

- Article 79-60 (1) In addition to the performance of acts under the provisions of the Act on Special Treatment of Corporate Reorganization Proceedings and Other Insolvency Proceedings of Financial Institutions, if a Fund finds it to be necessary in order to preserve the fulfillment of a claim that a General Customer has against a Financial Services Provider That Is the Subject of a Notice (limited to a claim involving the Customer Assets of that General Customer), the Fund, within the scope of this necessity, has the authority to perform any and all judicial and non-judicial acts that are necessary for preserving the fulfillment of that claim on behalf of that General Customer.
- (2) A Fund must be sincere and fair in its performance of the acts referred to in the preceding paragraph on behalf of a General Customer.
  - (3) A Fund shall perform the acts set forth in paragraph (1) for General Customers with the due care of a prudent manager.
  - (4) Before performing a judicial pursuant to the provisions of paragraph (1), a Fund must notify the General Customer that the Fund represents in that act, of the content of the act.
  - (5) A General Customer that has received the notice under the provisions of the preceding paragraph may independently perform any judicial act to which that notice pertains by extinguishing the authority of representation of the Fund by notifying the Fund that the General Customer extinguishes the authority of representation.

(Services for Contributing to Expeditious Payment)

Article 79-61 A Fund may be entrusted by a Financial Services Provider that is its member, to perform services as the agent of the beneficiary of a trust prescribed in Article 43-2, paragraph (2) which is connected to the Financial Services Provider or other services for contributing to the expeditious refunding of Customer Assets.

(Delegation to Cabinet Office Ordinance)

Article 79-62 Procedures for the implementation of the provisions of this Section and particulars that are otherwise necessary for their implementation are specified by Cabinet Office Ordinance or Ordinance of the Cabinet Office and the Ministry of Finance.

## Section 6 Dues

### (Funds for Investor Protection)

- Article 79-63 (1) A Fund is to set aside funds that it allocates to cover the costs that are required for the services set forth in the items of Article 79-49 (hereinafter referred to as "Funds for Investor Protection").
- (2) Funds for Investor Protection must not be used other than when they are allocated to cover the costs that are required for the services set forth in the items of Article 79-49.

### (Dues)

- Article 79-64 (1) A Financial Services Provider shall pay dues to a Fund to which it belongs pursuant to the provisions of the operational rules, so that these can be allocated to Funds for Investor Protection.
- (2) Notwithstanding the provisions of the preceding paragraph, a Fund may waive the dues of a Financial Services Provider That Is the Subject of a Notice, pursuant to the provisions of the articles of incorporation.

### (Method of Calculation of the Amount of Dues)

- Article 79-65 (1) The amount of the dues referred to in paragraph (1) of the preceding Article is the amount calculated using the calculation method stipulated in the operational rules.
- (2) The method of calculating dues which is referred to in the preceding paragraph must be specified so as to conform to the following criteria:
- (i) the finances of a Fund will be balanced in the long term in light of the estimated amount of payments set forth in Article 79-56, paragraph (1) and the costs that are required for services linked to Funds for Investor Protection; and
  - (ii) no particular Financial Services Provider is subject to differential treatment.
- (3) The provisions of the preceding paragraph must not be construed as precluding the temporary specification of a method of calculating dues that does not conform to the criterion specified in item (i) of that paragraph, if the payment of dues so calculated would make it impossible for a Financial Services Provider that is a member to maintain its sound management.

### (Delinquency Charges)

- Article 79-66 (1) If a Financial Services Provider fails to pay its dues by the due date for payment specified by the operational rules, it must pay a delinquency charge to the Fund to which it belongs.
- (2) The amount of a delinquency charge is calculated by multiplying the amount

of unpaid dues by an annual rate of 14.5 percent, based on the number of days from the day following the due date for payment until the day of payment.

(Delegation to Cabinet Office Ordinance and Ordinance of the Ministry of Finance)

Article 79-67 Procedures for the implementation of the provisions of this Section and particulars that are otherwise necessary for their implementation are specified by Cabinet Office Ordinance and Ordinance of the Ministry of Finance.

## **Section 7 Finance and Accounting**

(The Business Year)

Article 79-68 The business year of a Fund is from April 1 to March 31 of the following year; provided, however, that the business year in that includes the day of establishment of a Fund is from the day of establishment to the following March 31.

(Submission of a Budget and Financial Plan)

Article 79-69 A Fund shall prepare a budget and a financial plan for every business year and submit them to the Prime Minister and the Minister of Finance before the commencement of the relevant business year (with regard to a business year that includes the day of establishment of a Fund, this means without delay after the establishment of the Fund). The same applies if a Fund changes the budget or financial plan.

(Submission of Financial Statements)

Article 79-70 (1) Within three months from the first day of the business year (excluding the business year that includes the day of establishment of a Fund), a Fund must submit a balance sheet and profit and loss statement, an inventory of assets and business report, and a statement of accounts based on their budget classification (hereinafter collectively referred to as "Financial Statements, etc." in this Article) for the previous business year to the Prime Minister and the Minister of Finance, and obtain their approval.

(2) When a Fund submits Financial Statements, etc. to the Prime Minister and the Minister of Finance pursuant to the provisions of the preceding paragraph, an inspector's written opinion about the Financial Statements, etc. must accompany them.

(3) A Fund must keep the Financial Statements, etc. that have been approved by the Prime Minister and the Minister of Finance as under the provisions of paragraph (1) at its office and make them available for public inspection.

(Reserve Funds)

Article 79-71 (1) A Fund must lay aside all of the surplus in every business year as reserve funds.

(2) The reserve funds referred to in the preceding paragraph may be allocated to cover any deficit carried over from the previous business year, and may be transferred to Funds for Investor Protection.

(3) The reserve funds referred to in paragraph (1) must not be broken into other than as referred to in the preceding paragraph.

(Borrowing of Funds)

Article 79-72 If a Fund finds it to be necessary in order for it to perform the services set forth in Article 79-49, items (i) to (iv) inclusive and item (vi), it may borrow funds (this includes refinancing) from a financial institution, etc. (meaning a bank, a Financial Services Provider, or any other person specified by Cabinet Office Ordinance or Ordinance of the Ministry of Finance) with the authorization of the Prime Minister and the Minister of Finance, within the limits of the amount specified by Cabinet Order.

(Restrictions on the Investment of Funds)

Article 79-73 A Fund must not invest any surplus funds that arise in the course of business or Funds for Investor Protection except in the following manners:

(i) by holding national government bonds or other Securities designated by the Prime Minister and the Minister of Finance;

(ii) by depositing them in a financial institution designated by the Prime Minister and the Minister of Finance; or

(iii) in other ways specified by Cabinet Office Ordinance and Ordinance of the Ministry of Finance.

(Delegation to Cabinet Office Ordinance and Ordinance of the Ministry of Finance)

Article 79-74 Beyond what is provided for in this Act, necessary particulars relevant to the finance and accounting of a Fund are specified by Cabinet Office Ordinance and Ordinance of the Ministry of Finance.

## **Section 8 Supervision**

(Business Improvement Orders)

Article 79-75 If the Prime Minister and the Minister of Finance find it to be necessary and appropriate in the public interest or for the protection of investors, they may order a Fund to change its articles of incorporation or

operational rules, or may otherwise issue it orders that are necessary from a supervisory perspective, in connection with its business. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister and the Minister of Finance must conduct a hearing.

(Rescission of Authorization)

Article 79-76 If a Fund violates a law or regulation, a disposition by a government agency which is based on a law or regulation, or its articles of incorporation or operational rules, or if the Prime Minister and the Minister of Finance find that it will be difficult for a Fund's services to continue due to the state of its services or assets, and the Prime Minister and the Minister of Finance find it to be necessary and appropriate in the public interest or for the protection of investors, they may rescind the authorization for the incorporation of the Fund. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister and the Minister of Finance must conduct a hearing.

(Collection of Reports and On-Site Inspections)

Article 79-77 Whenever the Prime Minister and the Minister of Finance find that it is necessary and appropriate in the public interest or for the protection of investors, they may order a Fund or a person that a Fund has entrusted with its business to submit reports or materials that should serve as a reference with regard to the business or assets of the Fund, and may have the relevant officials enter the office of a Fund or of the person that a Fund has entrusted with its business to inspect its books and documents or any other articles (but may only have the relevant officials inspect the person that a Fund has entrusted with its business as is necessary in connection with the business or assets of the Fund).

## **Section 9 Dissolution**

(Grounds for Dissolution)

Article 79-78 (1) A Fund is dissolved for the following reasons:

- (i) general meeting resolution; or
- (ii) the rescission of authorization for incorporation.

(2) Dissolution on the grounds specified in item (i) of the preceding paragraph does not become effective without the authorization of the Prime Minister and the Minister of Finance.

(Appointment of a Liquidator)

Article 79-79 In the case of a dissolution under the provisions of paragraph (1), item (i) of the preceding Article, a liquidator is appointed at a general meeting. In the case of a dissolution under the provisions of item (ii) of that paragraph, a liquidator is appointed by the Prime Minister and the Minister of Finance.

(Disposal of Residual Assets)

Article 79-80 (1) If there are residual assets after the payment of the obligations of a Fund, the liquidator, pursuant to the provisions of Cabinet Office Ordinance and Ordinance of the Ministry of Finance, must cause the residual assets to vest in each of the other Funds that the members join.  
(2) Beyond what is provided for in the preceding paragraph, required measures in connection with the dissolution of a Fund may be specified by Cabinet Order within the scope that is reasonably determined to be necessary.

## **Chapter V Financial Instruments Exchange**

### **Section 1 General Provisions**

(Licensing)

Article 80 (1) With the exception of an Authorized Financial Instruments Business Association, a person must not operate a Financial Instruments Market unless it is licensed by the Prime Minister.  
(2) The provisions of the preceding paragraph do not apply if a Financial Services Provider, etc. or a Financial Instruments Intermediary conducts a purchase and sale of Securities or a Market Transaction of Derivatives (other than a transaction conducted outside a Financial Instruments Exchange Market), or intermediation, brokerage, or agency for such a transaction pursuant to the provisions of this Act.

(Application for License)

Article 81 (1) A person seeking the license referred to paragraph (1) of the preceding Article must submit a written license application to the Prime Minister, in which the person states the following particulars:  
(i) its name or trade name;  
(ii) the location of its office, head office, branch office, or any other business office; and  
(iii) the names of its officers, and the trade names or names of members or Trading Participants (hereinafter each such member or Trading Participant is referred to as a "Member, etc.").  
(2) The articles of incorporation, the operational rules, the brokerage contract rules, and other documents specified by Cabinet Office Ordinance must

accompany the written license application referred to in the preceding paragraph.

- (3) In a case referred to in the preceding paragraph, if the articles of incorporation have been prepared as electronic or magnetic records, such electronic or magnetic records (limited to those specified by Cabinet Office Ordinance) may accompany the written license application in lieu of written documents.

(Licensing Examination Criteria)

Article 82 (1) Whenever a license application under paragraph (1) of the preceding Article is filed, the Prime Minister shall examine whether the application conforms to the following criteria:

- (i) the provisions of the articles of incorporation, the operational rules, and the brokerage contract rules conform to laws and regulations, and are sufficient for ensuring fair and smooth purchase and sales of Securities and Market Transactions of Derivatives on a Financial Instruments Exchange Market, as well as for protecting investors;
  - (ii) the license applicant has a sufficient personnel structure to run a Financial Instruments Exchange Market in an appropriate manner; or
  - (iii) the license applicant will be organized as a Financial Instruments Exchange in a manner that conforms to the provisions of this Act.
- (2) If, as a result of having conducted an examination pursuant to the provisions of the preceding paragraph, the Prime Minister finds that an application conforms to the criteria in that paragraph, the Prime Minister shall grant the license, except in a case that falls under one of the following items:
- (i) the license applicant is a person that has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of this Act or for violating the provisions of a foreign law or regulation that is equivalent to this Act, and five years have yet to pass since the day on which that person finished serving the sentence or ceased to be subject to its enforcement;
  - (ii) the license applicant is a person that has had its license rescinded pursuant to the provisions of Article 148; Article 152, paragraph (1); Article 156-17, paragraph (1) or (2); Article 148 as applied mutatis mutandis pursuant to Article 156-26; or Article 156-32, paragraph (1); has had its registration rescinded pursuant to the provisions of Article 52, paragraph (1); Article 53, paragraph (3); Article 57-6, paragraph (3); Article 66-20, paragraph (1); or Article 66-42, paragraph (1); has had its authorization rescinded pursuant to the provisions of Article 106-7, paragraph (1); Article 106-21, paragraph (1); Article 106-28, paragraph (1); or Article 156-5-9, paragraph (1); or a person that had obtained a license or registration of the same kind in a foreign state

pursuant to the provisions of a foreign law or regulation that is equivalent to this Act (including permission or any other administrative disposition similar to such a license or registration), but that has had that license or registration rescinded; and five years have yet to pass since the date of the rescission;

(iii) the license applicant has a person falling under one of the following sub-items (a) to (f) inclusive as an officer:

(a) a person set forth in one of Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive;

(b) a person that, during the 30 days prior to the date of rescission, was the officer (for a Foreign Financial Instruments Exchange or a Foreign Financial Instruments Clearing Organization, this includes the domestic representative; hereinafter the same applies in sub-item(e)) of a Financial Instruments Exchange that has had its license rescinded pursuant to the provisions of Article 148 or Article 152, paragraph (1); the officer of a Financial Instruments Clearing Organization that has had its license rescinded pursuant to the provisions of Article 156-17, paragraph (1) or (2); the officer of a Securities Finance Company that has had its license rescinded pursuant to the provisions of Article 156-32, paragraph (1); the officer of a Foreign Financial Instruments Exchange that has had its authorization rescinded pursuant to the provisions of Article 155-6 or Article 155-10, paragraph (1); the officer a Foreign Financial Instruments Clearing Organization that has had its license rescinded pursuant to the provisions of Article 156-20-14, paragraph (1) or (2); or the officer of a person that had obtained a license or authorization of the same kind in a foreign state pursuant to the provisions of a foreign law or regulation that is equivalent to this Act (including permission or any other administrative disposition similar to such a license or authorization), but that has had that license or authorization rescinded; if five years have yet to pass since the date of the rescission;

(c) a person that, during the 30 days prior to the date of rescission, was a Major Shareholder (meaning a Major Shareholder as prescribed in Article 106-6, paragraph (1); Article 106-20, paragraph (1); or Article 156-5-8; hereinafter the same applies in this item) that has had its authorization rescinded pursuant to the provisions of Article 106-7, paragraph (1); Article 106-21, paragraph (1); or Article 156-5-9, paragraph (1); or was the officer of a Financial Instruments Exchange Holding Company that has had its authorization rescinded pursuant to the provisions of Article 106-28, paragraph (1); if five years have yet to pass since the date of rescission;

(d) a person with a Major Shareholder that has had its authorization rescinded pursuant to the provisions of Article 106-7, paragraph (1);

- Article 106-21, paragraph (1); or Article 156-5-9, paragraph (1), if five years have yet to pass since the date of the rescission;
- (e) an officer whose dismissal has been ordered pursuant to the provisions of Article 150; Article 152, paragraph (1); Article 155-10, paragraph (2); Article 156-14, paragraph (3); Article 156-17, paragraph (2); Article 156-20-14, paragraph (2); or Article 156-31, paragraph (3), if five years have yet to pass since the day of that disposition; or
  - (f) an officer whose dismissal has been ordered pursuant to the provisions of Article 106-28, paragraph (2), if five years have yet to pass since the day of that disposition.
- (iv) the license application or a document or electronic or magnetic record that is required to accompany it contains a false statement or false record about a material particular.

(Refusal of a License)

- Article 83 (1) If a license application under the provisions of Article 81, paragraph (1) is filed and the Prime Minister finds it inappropriate to grant that license, the Prime Minister shall notify the license applicant and have the relevant officials conduct a hearing.
- (2) Upon deciding to grant or not to grant the license under the provisions of Article 80, paragraph (1), the Prime Minister shall notify the license applicant of this in writing without delay.

(Corporations Eligible to Become Financial Instruments Exchanges)

- Article 83-2 A Financial Instruments Exchange must be a Financial Instruments Incorporated Association or a stock company with a stated capital of not less than the amount specified by Cabinet Order, and have in place the following organs:
- (i) a board of directors;
  - (ii) a board of company auditors or committees; and
  - (iii) an accounting auditor.

(Self-Regulatory Services)

- Article 84 (1) A Financial Instruments Exchange must perform Self-Regulatory Services in an appropriate manner, in accordance with this Act and with its articles of incorporation and other rules, in order to ensure the fair purchase and sale of Securities and Market Transactions of Derivatives on the Financial Instruments Exchange Market, as well as to protect investors.
- (2) The term "Self-Regulatory Services" as used in the preceding paragraph means the following services conducted in respect of a Financial Instruments Exchange:

- (i) services related to the listing and delisting of Financial Instruments, Financial Indicators, and Options (hereinafter referred to as "Financial Instruments, etc." in this Chapter) (excluding those specified by Cabinet Office Ordinance);
- (ii) the investigation of Members', etc. compliance with laws and regulations, dispositions by government agencies which are based on laws and regulations, with the articles of incorporation and other rules, and with the principle of good faith in transactions; and
- (iii) other services specified by Cabinet Office Ordinance as necessary for ensuring fairness in transactions on a Financial Instruments Exchange Market.

(Entrustment of Self-Regulatory Services)

Article 85 (1) With the authorization of the Prime Minister, a Financial Instruments Exchange may entrust the whole or part of the Self-Regulatory Services of the Financial Instruments Exchange to a self-regulatory organization (meaning a corporation incorporated pursuant to the provisions of Subsection 1-2 of the following Section for the purpose of performing Self-Regulatory Services (meaning Self-Regulatory Services as prescribed in paragraph (2) of the preceding Article; hereinafter the same applies in this Chapter); hereinafter the same applies in this Chapter).

- (2) The Prime Minister may attach conditions to the authorization under the preceding paragraph.
- (3) The conditions referred to in the preceding paragraph must constitute the minimum necessary conditions in light of the purpose of the authorization, or for securing the reliable implementation of the things related to the authorization.
- (4) In addition to entrustment in a case under paragraph (1), a Financial Instruments Exchange may entrust another person with conducting a part of the Self-Regulatory Services of the Financial Instruments Exchange (limited to services connected with a Specified Financial Instruments Exchange Market that are specified by Cabinet Office Ordinance as services which, in consideration of the contents thereof and other related factors, address matters other than those that affect the foundation of investor protection; hereinafter referred to as "Specified Services" in this Article and Article 102-19).
- (5) If a Financial Instruments Exchange seeks to entrust Specified Services pursuant to provisions of the preceding paragraph, it must take measures to ensure the proper implementation of such Specified Services, pursuant to the provisions of Cabinet Office Ordinance.
- (6) If, pursuant to the provisions of paragraph (4), a Specified Stock Company-Operated Financial Instruments Exchange (meaning a Specified Company-

Operated Financial Instruments Exchange as prescribed in Article 105-4, paragraph (2); hereinafter the same applies in this paragraph) entrusts another person with its Specified Services, this must be based on the decision of the self-regulatory committee of the Specified Stock Company-Operated Financial Instruments Exchange with regard to that entrustment.

(Submission of a Written Application for Authorization)

Article 85-2 (1) A Financial Instrument Exchange seeking the authorization referred to in paragraph (1) of the preceding Article must submit a written application for authorization to the Prime Minister in which it states the following particulars:

- (i) its name;
  - (ii) the name of the self-regulatory organization it will entrust (hereinafter referred to as an "Entrusted Self-Regulatory Organization" in this Chapter);
  - (iii) a business outline of the Self-Regulatory Services it will entrust; and
  - (iv) other matters specified by Cabinet Office Ordinance.
- (2) Documents giving the details of the entrustment agreement and other documents specified by Cabinet Office Ordinance must accompany the written application for authorization referred to in the preceding paragraph.
- (3) The provisions of Article 81, paragraph (3) apply mutatis mutandis in the case of the application for authorization referred to in paragraph (1). In this case, the phrase "the articles of incorporation" is deemed to be replaced with "documents giving the details of the entrustment agreement".

(Criteria for Authorization)

Article 85-3 Whenever an application for authorization under the provisions of paragraph (1) of the preceding Article is filed, the Prime Minister shall examine whether the application conforms to the following criteria:

- (i) the Entrusted Self-Regulatory Organization has obtained Article 102-14 authorization;
- (ii) the entrustment agreement appropriately and clearly specifies the cost calculation method under entrustment in a way that allows a self-regulatory organization to conduct the Self-Regulatory Services with which it is entrusted;
- (iii) the entrustment agreement stipulates that the Entrusted Self-Regulatory Organization will not utilize information learned in connection with the Self-Regulatory Services under entrustment for a purpose other than use in the Self-Regulatory Services for which the information is provided; and
- (iv) beyond what is provided for in the preceding three items, the content of the entrustment agreement is sufficient to ensure the proper implementation of the Self-Regulatory Services at the Entrusted Self-Regulatory Organization.

(Hearing When Authorization Is Not Granted)

- Article 85-4 (1) If an application for authorization under the provisions of Article 85-2, paragraph (1) is filed and the Prime Minister finds it inappropriate to grant that authorization, the Prime Minister shall notify the applicant for authorization and have the relevant officials conduct a hearing.
- (2) Upon deciding to grant or not to grant the authorization under the provisions of Article 85, paragraph (1), the Prime Minister shall notify the applicant for authorization of this in writing without delay.

(Trade Name or Name)

- Article 86 (1) A Financial Instruments Exchange must use the characters "torihikijo" (meaning "exchange") in its name or trade name.
- (2) A person that is not a Financial Instruments Exchange must not use a term in its name or trade name which could give rise to the misconception that it is a Financial Instruments Exchange.

(Dispositions against Members, etc.)

Article 87 A Financial Instruments Exchange must stipulate in its articles of incorporation that the Members, etc. are to observe laws and regulations, dispositions by government agencies which are based on laws and regulations, and the Financial Instruments Exchange's articles of incorporation, operational rules, brokerage contract rules, and other rules (hereinafter simply referred to as the "Rules" in this Article) as well as the principle of good faith in transactions, and that if a Member, etc. violates a law or regulation, a disposition by a government agency which is based on a law or regulation, or the Rules, or if it engages in an act that is contrary to the principle of good faith in transactions, the Financial Instruments Exchange will impose a surcharge on that Member, etc., order the suspension or restriction of its purchase and sales of Securities or Market Transactions of Derivatives on the Financial Instruments Exchange Market or its entrustment with Brokerage for the Clearing of Securities, etc. for such transactions, or expel it from the Financial Instruments Exchange (or rescind its trading license, if it is a Trading Participant).

(Scope of Business)

Article 87-2 (1) A Financial Instruments Exchange may not engage in business other than the operation of Financial Instruments Exchange Markets and business incidental thereto; provided, however, that if it obtains the authorization of the Prime Minister pursuant to the provisions of Cabinet Office Ordinance, it may engage in the business of operating a market for

carrying out transactions involving Carbon Dioxide Equivalent Quotas (meaning carbon dioxide equivalent quotas as defined in Article 2, paragraph (6) of the Act on Promotion of Global Warming Countermeasures (Act No. 117 of 1998)), the business of operating the necessary market for effecting Commodity Futures Transactions (but only if this is done by a Stock Company-Operated Financial Instruments Exchange), the business of operating a market for carrying out any other transactions specified by Cabinet Office Ordinance as being similar to Financial Instruments Transactions, or business incidental thereto.

- (2) If an application is filed for the authorization referred to in the proviso to the preceding paragraph, and the Prime Minister finds that the business to which the application pertains may impair confidence in the public nature of the business of the Financial Instruments Exchange or may obstruct the operation of the Financial Instruments Exchange Markets and the sound and appropriate operation of business incidental thereto, the Prime Minister must not to grant that authorization.
- (3) The provisions of Article 30-2 apply mutatis mutandis to the authorization referred to in the proviso to paragraph (1).

(Mutatis Mutandis Application of Provisions on Hearing)

Article 87-2-2 The provisions of Article 85-4 apply mutatis mutandis to the authorization referred to in the proviso to paragraph (1) of the preceding Article.

(Scope of Subsidiary Companies)

- Article 87-3 (1) A Financial Instruments Exchange must not have a company other than one that operates a Financial Instruments Exchange Market or engages in business incidental thereto as its Subsidiary Company; provided, however, that with the authorization of the Prime Minister, it may have a company that engages business that is linked to the operation of a Financial Instruments Exchange Market, a company that is in the business of operating the necessary market for effecting Commodity Futures Transactions (including business incidental thereto; hereinafter referred to as the "Operation of a Commodity Market"), or a company that engages in business that is linked to the operation of the necessary market for effecting Commodity Futures Transactions, as its Subsidiary Company.
- (2) Notwithstanding the provisions of the preceding paragraph, a Financial Instruments Exchange Engaged in the Operation of a Commodity Market may have a company engaged in the Operation of a Commodity Market as its Subsidiary Company.
  - (3) The term "Subsidiary Company" as used in the preceding two paragraphs

means a company in which a corporation holds the majority of all shareholders', etc. voting rights. In such a case, a company in which a corporation and one or more of its Subsidiary Companies hold the majority of all shareholders', etc. voting rights, or in which one or more of a corporation's Subsidiary Companies hold the majority of all shareholders', etc. voting rights, is deemed to be the Subsidiary Company of that corporation.

(4) Notwithstanding the provisions of paragraph (1), a Financial Instruments Exchange may incorporate a self-regulatory organization, with the authorization of the Prime Minister.

(5) The provisions of Article 30-2 apply mutatis mutandis to the authorization referred to in the proviso to paragraph (1).

(Mutatis Mutandis Application of Provisions on Hearings)

Article 87-4 The provisions of Article 85-4 apply mutatis mutandis to the authorizations referred to in the proviso to paragraph (1) and paragraph (4) of the preceding Article.

(Officers)

Article 87-5 The officer of a Financial Instruments Exchange must not hold the position of officer at more than one Financial Instruments Exchange.

(Provisional Board Members and Provisional Directors)

Article 87-6 (1) If there is no one to perform the duties of board member or auditor at a Financial Instruments Incorporated Association that operates a Financial Instruments Exchange Market (hereinafter referred to as a "Incorporated Association-Operated Financial Instruments Exchange") and the Prime Minister finds it to be necessary, the Prime Minister may appoint a provisional board member or a provisional auditor.

(2) If there is no one to perform the duties of a director, accounting advisor, company auditor, representative director, executive officer, or representative executive officer of a Stock Company-Operated Financial Instruments Exchange and the Prime Minister finds it to be necessary, the Prime Minister may appoint a provisional director, provisional accounting advisor, provisional company auditor, provisional representative director, provisional executive officer, or provisional representative executive officer.

(3) The provisions of Article 346, paragraph (2); Article 351, paragraph (2); and Article 401, paragraph (3) of the Companies Act (including as applied mutatis mutandis pursuant to Article 403, paragraph (3) and Article 420, paragraph (3) of that Act) do not apply to a Stock Company-Operated Financial Instruments Exchange.

(Registration by Request of the Prime Minister)

Article 87-7 (1) If the Prime Minister appoints a provisional director, provisional accounting advisor, provisional company auditor, provisional representative director, provisional executive officer, or provisional representative executive officer pursuant to the provisions of paragraph (2) of the preceding Article, the Prime Minister must request the registry office for the location of the head office of the Stock Company-Operated Financial Instruments Exchange, to make this registration.

(2) If the Prime Minister requests a registration pursuant to the provisions of the preceding paragraph, the request form must be accompanied by a document evidencing that the Prime Minister has reached a disposition in connection with the circumstances causing the registration.

(Duty of Confidentiality)

Article 87-8 It is prohibited for the officer (or, if the officer is a corporation, a person that performs those duties) or employee of a Financial Instruments Exchange, the board member, auditor, or employee of a self-regulatory organization, or a person that has held one of these positions, to divulge or misappropriate any secret learned in the course of duty.

(Prohibition on Differential Treatment)

Article 87-9 A Financial Instruments Exchange must not subject any particular Member, etc. or any particular Issuer of Securities to unfairly differential treatment.

## **Section 2 Financial Instruments Incorporated Associations , Self-Regulatory Organizations, and Stock Companies That Operate Financial Instruments Exchange Markets**

### **Subsection 1 Financial Instruments Incorporated Association**

#### **Division 1 Incorporation**

(Legal Personality)

Article 88 (1) Financial Instruments Incorporated Association is a juridical person.

(2) A Financial Instruments Incorporated Association must use the characters "kaiinsei hojn" (meaning " corporation consisting of its members") in its name.

(3) A person that is not a Financial Instruments Incorporated Association must not use a term in its name which could give rise to the misconception that it is a Financial Instruments Incorporated Association .

(Founders)

Article 88-2 (1) It is prohibited for a person other than a Financial Services Provider, etc. to incorporate a Financial Instruments Incorporated Association.  
(2) For a Financial Instruments Incorporated Association to be incorporated, the Financial Services Providers, etc. that seek to become its members must become the founders.

(Articles of Incorporation)

Article 88-3 (1) In order for a Financial Instruments Incorporated Association to be incorporated, the founders must prepare articles of incorporation, and all founders must sign or have their names and seals affixed thereto.

(2) The following particulars must be stated or recorded in the articles of incorporation of a Financial Instruments Incorporated Association:

(i) its purpose;

(ii) its name;

(iii) the location of its offices;

(iv) the particulars of funds and contribution;

(v) the particulars of its Members, etc.;

(vi) the particulars of investigations into Members', etc. compliance with laws and regulations, dispositions by government agencies which are based on laws and regulations, the articles of incorporation and other rules, and the principle of good faith in their transactions;

(vii) the particulars of its guarantee funds;

(viii) the particulars of its allocation of costs;

(ix) the particulars of its officers;

(x) the particulars of its meetings;

(xi) the particulars of the execution of business;

(xii) the particulars of the preparation of rules;

(xiii) the particulars of the Financial Instruments Exchange Markets;

(xiv) the particulars of its accounting; and

(xv) the means of public notice (meaning the means by which the Financial Instruments Incorporated Association makes its public notices (excluding public notices that, pursuant to the provisions of this Act, must be made by means of publication in the Official Gazette); the same applies in Article 89-2, paragraph (2), item (ix)).

(3) The provisions of Article 30, paragraph (1) of the Companies Act apply *mutatis mutandis* to the articles of incorporation provided for in paragraph (1).

(Organizational Meetings)

Article 88-4 (1) After preparing the articles of incorporation, the founders shall solicit persons seeking to become members, and hold an organizational meeting, giving public notice of those articles of incorporation, together with the date,

time, and place of the meeting, by two weeks prior to the day of the meeting.

- (2) A person planning to become a member of a Financial Instruments Incorporated Association whose incorporation is planned (hereinafter referred to as the "Expected Member" in this Article, the following Article and Article 88-6) must pay the full amount of the contribution before the opening of the organizational meeting.
- (3) Approval of the articles of incorporation and decisions about matters that are otherwise necessary for incorporation must be effected by organizational meeting resolution.
- (4) The articles of incorporation may be revised at an organizational meeting.
- (5) The items of organizational meeting business that are referred to in paragraph (3) are decided with at least a two-thirds majority of the votes of the attendees, at a meeting where at least half of the Expected Members that have paid the full amount of the contribution by the opening of said meeting, are present.
- (6) An Expected Member that does not pay the full amount of the contribution by the time of the establishment of a Financial Instruments Incorporated Association is deemed to have rescinded its application for membership at the time of the establishment of the Financial Instruments Incorporated Association.

(Voting Rights of Expected Members)

- Article 88-5 (1) At an organizational meeting, each of the Expected Members holds an equal voting right.
- (2) An Expected Member that is not present at an organizational meeting may vote in writing or by proxy.
  - (3) The provisions of the preceding two paragraphs do not apply if it is otherwise provided for in the articles of incorporation.

(When an Expected Member Has No Voting Right)

Article 88-6 If an organizational meeting resolution concerns the relationship between a Financial Instruments Incorporated Association and a specific Expected Member, that Expected Member has no voting right.

(The Handing Over of Administrative Affairs to the President)

Article 88-7 The founders must hand over administrative affairs to the person becoming the president without delay after completion of its organizational meetings.

(Changing the Articles of Incorporation)

Article 88-8 The articles of incorporation may be changed only with the consent

of at least three-fourths of all members; provided, however, that this does not apply if it is otherwise provided for in the articles of incorporation.

(Capacity in Respect of Tortious Acts)

Article 88-9 A Financial Instruments Incorporated Association is liable to compensate for any damage that its president or board members cause another person in the performance of their duties.

(Address)

Article 88-10 The address of a Financial Instruments Incorporated Association is the address at which its principal office is located.

(Inventory of Assets and Directory of Members)

Article 88-11 (1) A Financial Instruments Incorporated Association shall prepare an inventory of assets at the time of incorporation and at any time between January and March of every year, and shall keep this at its principal office at all times; provided, however, that a Financial Instruments Incorporated Association that has adopted any specific business year shall prepare the inventory of assets at the time of its incorporation and at the end of every business year.

(2) A Financial Instruments Incorporated Association shall keep a directory of members and make the necessary changes whenever there is a change in the members.

(Restrictions on Board Members' Authority of Representation)

Article 88-12 Restrictions on the president's or a board member's authority of representation may not be asserted against a third party without knowledge of such limitations.

(Acts in Conflict of Interest)

Article 88-13 The president and board members have no authority of representation with regard to a matter that constitutes a conflict of interest between the Financial Instruments Incorporated Association and the president or board member. In such a case, the court must appoint a special agent, at the request of an interested party or the public prosecutor.

(Ordinary General Meetings)

Article 88-14 The board members of a Financial Instruments Incorporated Association must hold an ordinary general meeting of members at least once a year.

(Extraordinary General Meetings)

Article 88-15 (1) The board members of a Financial Instruments Incorporated Association may call an extraordinary general meeting whenever they find this to be necessary.

(2) If at least one-fifth of all members specify the purpose of a general meeting and demand that one be called, the board members must call an extraordinary general meeting; provided, however, that a proportion other than one-fifth of the members may be stipulated in the articles of incorporation.

(The Calling of a General Meeting)

Article 88-16 A convocation notice for a general meeting must specify the purpose of the general meeting, and must be issued as specified by the articles of incorporation at least five days prior to the day of the meeting.

(Execution of Administrative Functions)

Article 88-17 All administrative functions of a Financial Instruments Incorporated Association are carried out based on general meeting resolutions, except those delegated to the board members or other officers by the articles of incorporation.

(Matters for a General Meeting Resolution)

Article 88-18 At a general meeting, only matters of which advance notice is given pursuant to the provisions of Article 88-16 may be put to a resolution; provided, however, that, this does not apply if it is otherwise provided for in the articles of incorporation.

(Voting Rights of Members)

Article 88-19 (1) Each of the members holds an equal voting right.

(2) A member that is not present at a general meeting may vote in writing or by proxy.

(3) The provisions of the preceding two paragraphs do not apply if it is otherwise provided for in the articles of incorporation.

(When a Member Has No Voting Right)

Article 88-20 If a resolution concerns the relationship between a Financial Instruments Incorporated Association and a specific member, that member has no voting right.

(Jurisdiction over the Appointment of a Special Agent)

Article 88-21 The appointment of a special agent falls under the jurisdiction of the district court for the relevant Financial Instruments Incorporated

Association's principal office location.

(Mutatis Mutandis Application of the Companies Act)

Article 88-22 The provisions of Article 828, paragraph (1) of the Companies Act (limited to the part that involves item (i)) and of Article 828, paragraph (2) (limited to the part that involves item (i)); Article 834 (limited to the part that involves item (i)); Article 835, paragraph (1); Article 836, paragraphs (1) and (3); Articles 837 to 839 inclusive; and Article 846 of that Act apply mutatis mutandis to an action to invalidate the incorporation of a Financial Instruments Incorporated Association. In this case, in Article 828, paragraph (2), item (i) of that Act, the phrase "a Shareholder, etc. (meaning a shareholder, director or liquidator (or, for a Company with Company Auditors, it means a shareholder, director, company auditor or liquidator; and for a Company with Committees, it means a shareholder, director, executive officer, or liquidator); hereinafter the same applies in this Section) of the incorporated Stock Company or a Partner, etc. (meaning a partner or liquidator; hereinafter the same applies in this paragraph) of the incorporated membership Company" is deemed to be replaced with "the members, the president and board members, the auditors, or the liquidators", and any other necessary technical replacement of terms is specified by Cabinet Order.

## **Division 2 Registration**

(Establishment)

Article 89 (1) A Financial Instruments Incorporated Association is established by a registration of incorporation being recorded in connection with the location of its principal office.

(2) Except in a case prescribed in the preceding paragraph, the particulars that are required to be registered pursuant to the provisions of this Act may not be asserted against a third party until after their registration.

(Registration)

Article 89-2 (1) A registration of incorporation must be recorded for a Financial Instruments Incorporated Association in connection with the location of its principal office and within two weeks from the final day of its organizational meetings.

(2) The following particulars must be stated in the registration referred to in the preceding paragraph:

- (i) purposes;
- (ii) name;
- (iii) office address;

- (iv) duration of operation and grounds for dissolution, if specified;
- (v) funds and amount of contributions paid in;
- (vi) unit amount of contributions and method of payment;
- (vii) name, address, and qualifications of the person with the authority of representation;
- (viii) provisions on the scope and limitation of the authority of representation, if any; and
- (ix) means of public notice.

(Registration in Connection with a Secondary Office Location)

Article 89-3 (1) In a case set forth in one of the following items (unless the secondary office set forth in the relevant item is located within the jurisdictional district of the registry office that has jurisdiction over the principal office location), a registration connected with the location of the secondary office location must be recorded in connection with the location of that secondary office within the period prescribed in said item:

- (i) if the secondary office is established upon the incorporation of the Financial Instruments Incorporated Association: within two weeks from the day on which the registration of incorporation was made for the principal office; and
  - (ii) if the secondary office is established after the incorporation of the Financial Instruments Incorporated Association: within three weeks from the day on which the secondary office is established.
- (2) The following particulars must be recorded for a registration connected with a secondary office location; provided, however, that if a secondary office is being newly established within the jurisdictional district of a registry office that has jurisdiction over an existing secondary office location, it is sufficient for the particulars specified in item (iii) to be registered:
- (i) name;
  - (ii) address of the principal office; and
  - (iii) addresses of secondary offices (limited to secondary offices located in the jurisdictional district of the registry office that has jurisdiction over the secondary office location in question).
- (3) If there is a change in a particular set forth in one of the items of the preceding paragraph, the Financial Instruments Incorporated Association must make a change to the registration in connection with the secondary office location within three weeks.

(Registration of the Relocation of an Office)

Article 89-4 (1) If a Financial Instruments Incorporated Association relocates its principal office to the jurisdictional district of any other registry office, it must register the relocation in connection with its former location, and register the

particulars set forth in the items of Article 89-2, paragraph (2) in connection with its new location, within two weeks.

- (2) If a Financial Instruments Incorporated Association relocates a secondary office to the jurisdictional district of any other registry office, it must register the relocation in connection with its former location (unless this is within the jurisdictional district of the registry office with jurisdiction over the principal office location) within three weeks, and must register the particulars set forth in the items of paragraph (2) of the preceding Article in connection with its new location (unless this is within the jurisdictional district of the registry office with jurisdiction over the principal office location; hereinafter the same applies in this Article) within four weeks; provided, however, that if the Financial Instruments Incorporated Association newly relocates a secondary office into the jurisdiction of a registry office that has jurisdiction over an existing secondary office location, it is sufficient that it register the particulars specified in item (iii) of that paragraph, in connection with its new location.

(Registration of a Change)

- Article 89-5 (1) If there is a change in the particulars set forth in one of the items of Article 89-2, paragraph (2), a Financial Instruments Incorporated Association must register the change in connection with its principal office location within two weeks.
- (2) A document certifying a change in a particular set forth in the items of Article 89-2, paragraph (2) must accompany a written application to register a change in that particular.

(Registration of a Provisional Disposition Suspending Persons from Discharging Their Duties)

Article 89-6 If an order for a provisional disposition is issued suspending the president of a Financial Instruments Incorporated Association or a board member that represents it from discharging their duties or appointing a person to act in their stead in the performance of those duties, or if a decision is reached that changes or rescinds such an order of provisional disposition, the Financial Instruments Incorporated Association must register this in the in connection with the principal office location.

(Jurisdiction for Registrations)

Article 89-7 (1) The legal affairs bureau or district legal affairs bureau or the branch office or sub-branch office of that bureau (hereinafter simply referred to as the "Registry Office") that has jurisdiction over the office location of a Financial Instruments Incorporated Association is the competent Registry Office for the registration of the Financial Instruments Incorporated

Association.

(2) A Financial Instruments Incorporated Associations register is kept at the Registry Office.

(Application for a Registration of Incorporation)

Article 89-8 (1) A registration of incorporation is made for a Financial Instruments Incorporated Association at the application of the person that is to represent the Financial Instruments Incorporated Association.

(2) The articles of incorporation and documents evidencing the payment of the contribution and qualifications of the person with the authority of representation must accompany the Financial Instruments Incorporated Association's written application for a registration of incorporation.

(Mutatis Mutandis Application of the Commercial Registration Act)

Article 90 The provisions of Articles 2 to 5 inclusive of the Commercial Registration Act (Act No. 125 of 1963) and Articles 7 to 15 inclusive; Articles 17 to 23-2 inclusive; Article 24 (excluding items (xv) and (xvi)); Articles 25 to 27 inclusive; Article 47, paragraph (1); Articles 48 to 53 inclusive; and Articles 132 to 148 inclusive of that Act apply mutatis mutandis to a registration involving a Financial Instruments Incorporated Association. In this case, in Article 17, paragraph (2), item (i) of that Act, the phrase "trade name and the head office" is deemed to be replaced with "name and the principal office"; in Article 48, Article 49, paragraph (1), Article 50, paragraphs (2) and (4), and Article 138, paragraphs (1) and (2) of that Act, the term "branch office" is deemed to be replaced with "secondary office"; in Article 17, paragraph (3) and Article 20, paragraph (3) of that Act, the phrase "the branch office of the company" is deemed to be replaced with "the secondary office of the Financial Instruments Incorporated Association"; in Article 25, paragraph (3), Article 48, paragraph (1), Article 49, paragraphs (1) and (3), Article 50, paragraphs (1) to (3) inclusive, Article 51, paragraph (1), Article 53, and Article 138, paragraph (1) of that Act, the term "head office" is deemed to be replaced with "principal office"; in Article 48, paragraph (2) of that Act, the phrase "the respective item of Article 930, paragraph (2) of the Companies Act" is deemed to be replaced with "the relevant item of Article 89-2, paragraph (2) of the Financial Instruments and Exchange Act"; and any other necessary technical replacement of terms is specified by Cabinet Order.

### **Division 3 Members**

(Eligibility for Membership)

Article 91 Membership in a Financial Instruments Incorporated Association is

limited to Financial Services Providers, etc.

(Contribution and Liability)

Article 92 (1) A member must make a contribution pursuant to the provisions of the articles of incorporation.

(2) In addition to a member's liability to a Financial Instruments Incorporated Association being limited to the expenses prescribed in its articles of incorporation and the burden of any damage that member has caused the Financial Instruments Incorporated Association, a member's liability to a Financial Instruments Incorporated Association is limited to the amount of its contribution.

(Transfer of Equity)

Article 93 A member may transfer its equity only if, pursuant to the provisions of the articles of incorporation, that member seeks to withdraw its membership with the approval of the Financial Instruments Incorporated Association.

(Voluntary Withdrawal)

Article 94 A member may withdraw its membership with the approval of the Financial Instruments Incorporated Association, pursuant to the provisions of the articles of incorporation.

(Statutory Withdrawal)

Article 95 In addition to withdrawal in the case referred to in the preceding Article, the membership of a member is withdrawn for the following reasons:

- (i) the member comes to no longer fall under the category of a Financial Services Provider, etc.;
- (ii) dissolution; or
- (iii) expulsion.

(Refund of Equity)

Article 96 If a member withdraws its membership, the Financial Instruments Incorporated Association must refund the member's equity, pursuant to the provisions of the articles of corporation.

#### **Division 4 Administration**

(Restriction on Business)

Article 97 A Financial Instruments Incorporated Association must not conduct business for a profit.

(Appointment of Officers)

- Article 98 (1) A Financial Instruments Incorporated Association has one president, two or more board members, and two or more inspectors as its officers.
- (2) The members elect the board members and inspectors, with the exception of the board members appointed pursuant to the following paragraph, pursuant to the provisions of the articles of incorporation, and the board members (other than board members appointed pursuant to that paragraph) elect the president pursuant to the provisions of the articles of incorporation.
- (3) If there are special provisions in the articles of incorporation, the president appoints the number of board members specified by the articles of incorporation, with the consent of a majority of the board members.
- (4) A person that falls under one of the categories of persons prescribed in Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive of this Act or Article 331, paragraph (1), item (iii) of the Companies Act may not become an officer.
- (5) An officer loses the position of officer upon coming to fall under the category of a person provided for in the preceding paragraph.

(Duties of the Officers)

- Article 99 (1) A president represents a Financial Instruments Incorporated Association and presides over its affairs.
- (2) A board member, pursuant to the provisions of the articles of incorporation, represents a Financial Instruments Incorporated Association, assists the president in administering the affairs of the Financial Instruments Incorporated Association, acts as a proxy in handling the duties of the president if the president is unable to attend to them, and performs the duties of the president if the position is vacant.
- (3) An inspector examines the affairs of a Financial Instruments Incorporated Association.

## **Division 5 Dissolution**

(Grounds for Dissolution)

- Article 100 (1) A Financial Instruments Incorporated Association is dissolved for the following reasons:
- (i) the occurrence of a cause for dissolution provided for in the articles of incorporation;
- (ii) a general meeting resolution;
- (iii) a merger (but only if the Financial Instruments Incorporated Association disappears as the result of the merger);
- (iv) the number of members falls to five or below;

- (v) an order to commence bankruptcy proceedings;
  - (vi) failure to file a license application under the provisions of Article 81, paragraph (1) within six months from the day of establishment;
  - (vii) the decision of the Prime Minister not to grant the license referred to in Article 80, paragraph (1); or
  - (viii) the rescission or expiration of the license referred to in Article 80, paragraph (1).
- (2) A Financial Instruments Incorporated Association may not adopt a resolution to dissolve without the affirmative votes of three-fourths or more of all members; provided, however, that this does not apply if it is otherwise provided for in the articles of incorporation.

(Distribution of Residual Assets)

Article 100-2 The residual assets in the case of the dissolution of a Financial Instruments Incorporated Association must be distributed equally among its members, unless otherwise stipulated by the articles of incorporation or general meeting resolution.

(Period for the Registration of a Dissolution)

Article 100-3 If a Financial Instruments Incorporated Association is dissolved pursuant to the provisions of Article 100, paragraph (1) (excluding items (iii) and (v)), the dissolution must be registered in connection with its principal office location within two weeks.

(Registration of the Completion of Liquidation)

Article 100-4 Once the liquidation of a Financial Instruments Incorporated Association is complete, the completion of liquidation must be registered in connection with the principal office location within two weeks, and in connection with secondary office locations within three weeks, from the time at which the approval under Article 507, paragraph (3) of the Companies Act as applied mutatis mutandis pursuant to Article 100-17, paragraph (1) is obtained.

(Accompanying Documents for a Written Application for the Registration of a Dissolution)

Article 100-5 (1) A document evidencing the reason for dissolution must accompany an application to register the dissolution of a Mutually Owned Financial Instruments Corporation, and if the president or the board member representing the Financial Instruments Incorporated Association is not the liquidator, a document evidencing that the liquidator is the one representing the Financial Instruments Incorporated Association must accompany that application, as well.

(2) If a Financial Instruments Incorporated Association is dissolved due to a disposition rescinding the license referred to in Article 80, paragraph (1), the registration of the dissolution is made at the request of the Prime Minister.

(Accompanying Documents for a Written Application for the Registration of the Completion of Liquidation)

Article 100-6 A document evidencing that the liquidator has obtained the approval referred to in Article 507, paragraph (3) of the Companies Act as applied mutatis mutandis pursuant to Article 100-17, paragraph (1) must accompany the written application for the registration under the provisions of Article 100-4.

(Commencement of Bankruptcy Proceedings)

Article 100-7 (1) If a Financial Instruments Incorporated Association is unable to pay its debts in full out of its assets, the court, at the petition of the president and the board members or of the creditors, or by its own authority, issues an order to commence bankruptcy proceedings.

(2) In a case provided for in the preceding paragraph, the president and the board members must immediately file a petition to commence bankruptcy proceedings.

(Financial Instruments Incorporated Associations in Liquidation)

Article 100-8 A dissolved Financial Instruments Incorporated Association is deemed to still exist inasmuch as the task of liquidation is concerned, until the completion of liquidation.

(Appointment of a Liquidator by the Court)

Article 100-9 If there is no person that becomes the liquidator pursuant to the provisions of Article 647, paragraph (1) of the Companies Act as applied mutatis mutandis pursuant to Article 100-17, paragraph (1), or if any damage is likely to occur due to the position of liquidator being vacant, the court may appoint a liquidator at the request of any interested person or the public prosecutor, or by its own authority.

(Dismissal of Liquidators)

Article 100-10 At the request of an interested person or the public prosecutor or by its own authority, the court may dismiss the liquidator if there are material grounds for it to do so.

(Duties and Authority of a Liquidator)

Article 100-11 (1) The duties of a liquidator are as follows:

- (i) conclusion of current business;
  - (ii) collection of debts and performance of obligations; and
  - (iii) delivery of residual assets.
- (2) A liquidator may undertake any and all acts that are necessary for performing the duties prescribed in the items of the preceding paragraph.

(Demanding the Filing of Claims)

Article 100-12 (1) Within two months from the day on which a liquidator begins to act as liquidator, the liquidator must issue a demand for the creditors to file their claims within a specified period, issuing public notice of this on at least three occasions. In this, the period may not be less than two months.

- (2) The public notice referred to in the preceding paragraph must include a supplementary note indicating that if a creditor does not submit a claim within the relevant period, its claim will be excluded from the liquidation process; provided, however, that the liquidator may not exclude any known creditor.
- (3) The liquidator must issue an individual demand to each known creditor requiring that creditor to file its claim.
- (4) The public notice under paragraph (1) is made through publication in the Official Gazette.

(Filing of a Claim After a Lapse of Period)

Article 100-13 A creditor that submits its claim after the lapse of the period referred to in paragraph (1) of the preceding Article may only make a claim against assets which, after all debts of the Financial Instruments Incorporated Association have been fully paid, have not yet been delivered to the person with vested rights.

(Commencement of Bankruptcy Proceedings for a Financial Instruments Incorporated Associations in Liquidation)

Article 100-14 (1) If it becomes apparent during the liquidation process that the assets of a Financial Instruments Incorporated Association are not sufficient to fully pay its debts, the liquidator must immediately file a petition to commence bankruptcy proceedings, and make public notice indicating this.

- (2) If a Financial Instruments Incorporated Association in liquidation becomes subject to an order to commence bankruptcy proceedings, once the administration of the relevant procedures is transferred to the bankruptcy trustee the liquidator's duties are complete.
- (3) In the case provided for in the preceding paragraph, if a Financial Instruments Incorporated Association in liquidation has already paid money to a creditor or delivered an asset to the person with vested rights, the bankruptcy trustee may retrieve such money or asset.

(4) The public notice under the provisions of paragraph (1) is made through publication in the Official Gazette.

(Supervision by the Court)

Article 100-15 (1) The dissolution and liquidation of a Financial Instruments Incorporated Association is subject to the supervision of the court.

(2) The court, by its own authority, may conduct any examination that is necessary for the supervision referred to in the preceding paragraph, at any time.

(Notification of the Completion of Liquidation)

Article 100-16 When the liquidation process has been completed, the liquidator must notify the Prime Minister of this.

(Mutatis Mutandis Application of the Companies Act)

Article 100-17 (1) The provisions of Article 492, paragraphs (1) and (3) of the Companies Act and Article 507 (excluding paragraph (2)); Article 644 (excluding item (iii)); Article 647, paragraphs (1) and (4); Article 650, paragraph (2); Article 655, paragraphs (1) to (5) inclusive; and Articles 662 to 664 inclusive of that Act apply mutatis mutandis to the dissolution and liquidation of a Financial Instruments Incorporated Association. In this case, in Article 492, paragraph (1) of that Act, the phrase "Liquidators (or, for Companies with Board of liquidators, liquidators set forth in each item of paragraph (7) of Article 489)" is deemed to be replaced with "A liquidator"; in that paragraph and Article 507, paragraph (1) of that Act, the term "Ordinance of the Ministry of Justice" is deemed to be replaced with "Cabinet Office Ordinance"; in Article 492, paragraph (3) and Article 507, paragraph (3) of that Act, the term "shareholders meeting" is deemed to be replaced with "general meeting"; in Article 644, item (i) of that Act, the phrase "item (v) of Article 641" is deemed to be replaced with "Article 100, paragraph (1), item (iii) of the Financial Instruments and Exchange Act"; in Article 647, paragraph (1), item (i) of that Act, the phrase "A partner that executes the operations" is deemed to be replaced with "A president and a board member"; in item (iii) of that paragraph, the phrase "prescribed by the consent of a majority of partners (or, if partners that execute the operations are provided for in the articles of incorporation, those partners)" is deemed to be replaced with "appointed by general meeting resolution"; in Article 655, paragraph (3) of that Act, the phrase "from among themselves" is deemed to be replaced with "from among themselves or based on a general meeting resolution"; in paragraph (4) of that Article, the phrase "partners that execute the operations" is deemed to be replaced with "president or board members", the phrase "if the partners that

represent the Membership Company are already prescribed" is deemed to be replaced with "if the president or the board members that represent the Mutually Owned Company are already prescribed in the articles of incorporation", and the phrase "such partners that represent" is deemed to be replaced with "such president or board member (excluding president or board member whose authority of representation is limited by the articles of incorporation) that represent"; and any other necessary technical replacement of terms is specified by Cabinet Order.

- (2) The provisions of Article 868, paragraph (1) of the Companies Act; Article 871; Article 874 (limited to the part that involves item (i)); Article 875; and Article 876 of that Act apply mutatis mutandis to the liquidation of a Financial Instruments Incorporated Association. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Jurisdiction Over a Case Involving a Liquidator)

Article 100-18 The district court for the principal office location of a Financial Instruments Incorporated Association has jurisdiction over a case that involves the liquidator of that Financial Instruments Incorporated Association.

(Appeal on Judicial Decision for Appointment of Liquidators)

Article 100-19 A judicial decision appointing the liquidator of a Financial Instruments Incorporated Association may not be appealed.

(Remuneration of Liquidators)

Article 100-20 If the court appoints a liquidator for a Financial Instruments Incorporated Association pursuant to the provisions of Article 100-9, it may order the Financial Instruments Incorporated Association to pay the liquidator remuneration. The amount of remuneration paid to a liquidator is determined by the court, after hearing the statement of that liquidator and of an auditor.

(Dismissal of the Liquidator)

Article 100-21 An immediate appeal may be filed against a judicial decision dismissing the liquidator of a Financial Instruments Incorporated Association and against a judicial decision under the provisions of the preceding Article.

(Appointment of an Examiner)

Article 100-22 (1) The court may appoint an examiner to conduct the examinations that are necessary for supervising the dissolution and liquidation of a Financial Instruments Incorporated Association.

- (2) The provisions of the preceding three Articles apply mutatis mutandis if the court appoints an examiner pursuant to the provisions of the preceding

paragraph.

(Court Request for Investigation)

Article 100-23 (1) The court supervising the dissolution and liquidation of a Financial Instruments Incorporated Association may seek the opinion of, or commission an investigation by, the Prime Minister.

(2) The Prime Minister may state an opinion to the court prescribed in the preceding paragraph.

(Liquidators' Capacity in Respect of Tortious Acts)

Article 100-24 The provisions of Article 88-9 and Articles 88-12 to 88-15 inclusive apply mutatis mutandis when a liquidator performs liquidation duties.

(Mutatis Mutandis Application of the Commercial Registration Act)

Article 100-25 The provisions of Article 71, paragraph (1) of the Commercial Registration Act apply mutatis mutandis to registration of the dissolution of a Financial Instruments Incorporated Association under this Act.

## **Division 6 Organizational Conversion**

(Organizational Conversion from an Incorporated Association-Operated Financial Instruments Exchange to a Stock Company-Operated Financial Instruments Exchange)

Article 101 An Incorporated Association-Operated Financial Instruments Exchange may become a Stock Company-Operated Financial Instruments Exchange through an organizational conversion.

(Organizational Conversion Plan)

Article 101-2 (1) In order to implement the organizational conversion referred to in the preceding Article (hereinafter referred to as an "Organizational Conversion" in this Division), an Incorporated Association-Operated Financial Instruments Exchange must prepare an Organizational Conversion plan and have it approved by general meeting resolution.

(2) An Incorporated Association-Operated Financial Instruments Exchange may not adopt a resolution for an Organizational Conversion without the affirmative votes of three-fourths or more of all the members; provided, however, that this does not apply if otherwise provided for in the articles of incorporation.

(3) To call the general meeting referred to in paragraph (1), an outline of the Organizational Conversion plan and the articles of incorporation of the stock

- company after the Organizational Conversion (hereinafter referred to as the "Stock Company-Operated Financial Instruments Exchange after Organizational Conversion" in this Division), must be presented by at least five days prior to the day of the meeting, in addition to the purpose of the meeting.
- (4) If an Incorporated Association-Operated Financial Instruments Exchange implements an Organizational Conversion, that Incorporated Association-Operated Financial Instruments Exchange must provide for the following matters in the Organizational Conversion plan:
- (i) the purpose, trade name, location of the head office, and total number of authorized shares in the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion;
  - (ii) matters beyond those set forth in the preceding item, which are specified by the articles of incorporation of the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion;
  - (iii) the names of directors and name of the accounting auditor of the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion;
  - (iv) the particulars specified in the relevant of the following sub-items (a) and (b) for the category of cases set forth in that sub-item:
    - (a) if the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion will be a company with accounting advisors: the names of the accounting advisors of the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion; or
    - (b) if the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion will be a company with company auditors: the names of the company auditors of the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion.
  - (v) the number of shares in the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion which the members of the Incorporated Association-Operated Financial Instruments Exchange implementing the Organizational Conversion will acquire upon Organizational Conversion (if the Stock Company-Operated Financial Instruments Exchange after the Organizational Conversion will be a company with class shares, the classes of shares and the number of shares in each class) or the method of calculating it;
  - (vi) the particulars of the allotment of the shares referred to in the preceding item to members of the Incorporated Association-Operated Financial Instruments Exchange implementing the Organizational Conversion;
  - (vii) if the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion, upon implementation of the Organizational Conversion, will deliver money to the members of then Incorporated

Association-Operated Financial Instruments Exchange implementing the Organizational Conversion, the amount of money or the method of calculating it;

- (viii) in the case prescribed in the preceding item, the particulars of the allotment of the money referred to in that item to the members of the Incorporated Association-Operated Financial Instruments Exchange implementing the Organizational Conversion;
- (ix) the particulars of the amount of stated capital and reserve funds of the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion; and
- (x) the day on which the Organizational Conversion will become effective (hereinafter referred to as the "Effective Date" in this Division), and other matters specified by Cabinet Office Ordinance.

(The Keeping and Inspection of Organizational Conversion Plan Documents)

Article 101-3 (1) During the period from five days prior to the day of the general meeting set referred to in paragraph (1) of the preceding Article until the day immediately before the Effective Date, a Incorporated Association-Operated Financial Instruments Exchange implementing an Organizational Conversion shall keep the documents or electronic or magnetic records that state or contain a record of the particulars of the Organizational Conversion plan and other particulars specified by Cabinet Office Ordinance, at its principal office.

(2) The member or creditor of a Incorporated Association-Operated Financial Instruments Exchange implementing an Organizational Conversion may make the following requests of the Incorporated Association-Operated Financial Instruments Exchange at any time during its business hours; provided, however, that in making the request set forth in item (ii) or (iv), the member or creditor must pay the cost determined by the Incorporated Association-Operated Financial Instruments Exchange:

- (i) a request to inspect a document referred to in the preceding paragraph;
- (ii) a request to be issued a certified copy or extract of a document set forth in the preceding paragraph;
- (iii) a request to inspect something that shows the particulars that have been recorded in the electronic or magnetic records referred to in the preceding paragraph, through a means specified by Cabinet Office Ordinance; and
- (iv) a request to be provided with the particulars that have been recorded in the electronic or magnetic records referred to in the preceding paragraph by an electronic or magnetic means specified by Cabinet Office Ordinance, or a request to be issued a document that states those particulars.

(Objection by the Creditors)

Article 101-4 (1) The creditor of a Incorporated Association-Operated Financial Instruments Exchange implementing an Organizational Conversion may state an objection to the Incorporated Association-Operated Financial Instruments Exchange with regard to the Organizational Conversion.

(2) A Incorporated Association-Operated Financial Instruments Exchange implementing an Organizational Conversion shall issue public notice of the following particulars in the Official Gazette, and shall issue a notice of those particulars to its known creditors individually; provided, however, that the period set forth in item (ii) may not be less than one month:

(i) that an Organizational Conversion will be implemented; and

(ii) that a creditor may state an objection within a specified period.

(3) If a creditor does not state an objection within the period set forth in item (ii) of the preceding paragraph, the creditor is deemed to accept the Organizational Conversion.

(4) If a creditor states an objection within the period referred to in paragraph (2), item (ii), the Incorporated Association-Operated Financial Instruments Exchange implementing the Organizational Conversion shall pay its debt or provide commensurate collateral to the creditor, or shall deposit commensurate property with a trust company, etc. for the purpose of allowing that creditor to receive payment for the debt; provided, however, that this does not apply if the Organizational Conversion is unlikely to be detrimental to the creditor.

(The Keeping and Inspection of Documents on the Progress of the Organizational Conversion Process)

Article 101-5 (1) During the six-month period beginning from the Effective Date, a Post-Organizational-Conversion Financial Instruments Exchange shall keep the documents or electronic or magnetic records set forth in Article 101-3, paragraph (1), and the documents or electronic or magnetic records that state or contain a record of the progress of the process under the preceding Article and other particulars specified by Cabinet Office Ordinance as pertinent to the Organizational Conversion, at its head office.

(2) The shareholder of creditor of a Stock Company-Operated Financial Instruments Exchange after an Organizational Conversion may make the following requests of the Stock Company-Operated Financial Instruments Exchange after the Organizational Conversion at any time during its business hours; provided, however, that in making the request set forth in item (ii) or (iv), the shareholder or creditor must pay the cost determined by the a Incorporated Association-Operated Financial Instruments Exchange after the Organizational Conversion:

(i) a request to inspect the documents referred to in the preceding paragraph;

(ii) a request to be issued a certified copy or extract of the documents referred

- to in the preceding paragraph;
- (iii) a request to inspect something that shows the particulars recorded in the electronic or magnetic records referred to in the preceding paragraph, through a means specified by Cabinet Office Ordinance; and
  - (iv) a request to be provided with the particulars that have been recorded in the electronic or magnetic records referred to in the preceding paragraph by an electronic or magnetic means specified by Cabinet Office Ordinance, or a request to be issued a document that states those particulars.

(Allotment of Shares to the Members)

- Article 101-6 (1) The member of a Incorporated Association-Operated Financial Instruments Exchange is to be allotted shares in the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion or is to be allotted money, in accordance with the Organizational Conversion plan.
- (2) The provisions of Article 234, paragraph (1) of the Companies Act (excluding the items) and paragraphs (2) to (5) inclusive of that Article; Article 868, paragraph (1), Article 869; Article 871; Article 874 (limited to the part that involves item (iv)); Article 875; and Article 876 of that Act apply mutatis mutandis if shares or money are allotted to a member pursuant to the provisions of the preceding paragraph. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Amount Required to Be Reported as Stated Capital)

- Article 101-7 The amount that is required to be reported as the stated capital of a Stock Company-Operated Financial Instruments Exchange after Organizational Conversion is specified by Cabinet Office Ordinance.

(Amount Required to Be Reported as Capital Reserves)

- Article 101-8 The amount that is required to be reported as capital reserves at the time of Organizational Conversion and necessary particulars otherwise relevant to accounting in connection with Organizational Conversion are specified by Cabinet Office Ordinance.

(Issuance of Shares upon Organizational Conversion)

- Article 101-9 At the time of an Organizational Conversion, a Incorporated Association-Operated Financial Instruments Exchange Operated may issue shares in the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion, in addition to allotting shares under Article 101-6, paragraph (1). In doing this, it must specify the following particulars in the Organizational Conversion plan:
- (i) the number of shares that will be issued pursuant to the provisions of this

Article (hereinafter referred to as the "Shares Issued upon Organizational Conversion" in this Division) (if a Stock Company-Operated Financial Instruments Exchange after Organizational Conversion is a company with class shares, the classes and the number of Shares Issued upon Organizational Conversion);

- (ii) the amount to be paid in for the Shares Issued upon Organizational Conversion (meaning the amount of money to be paid in or property other than money to be delivered, in exchange for one Share Issued upon Organizational Conversion) or the method of calculating it;
- (iii) if property other than money will be the subject of contribution, an indication of this, as well as a description and the value of that property;
- (iv) the date for the payment of money or the delivery of the property referred to in the preceding item, in exchange for the Shares Issued upon Organizational Conversion; and
- (v) the particulars of the increased stated capital or capital reserves.

(Offers Involving Shares Issued upon Organizational Conversion)

Article 101-10 (1) A Incorporated Association-Operated Financial Instruments Exchange must notify a person that seeks to make an offer to subscribe for Shares Issued upon Organizational Conversion, of the following particulars:

- (i) the trade name of the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion;
- (ii) the particulars set forth in the items of the preceding Article;
- (iii) if money is to be paid in, the place accepting payments; and
- (iv) particulars beyond what is set forth in the preceding three items, which are specified by Cabinet Office Ordinance.

(2) A person making an offer to subscribe for Shares Issued upon Organizational Conversion must deliver a document to the Incorporated Association-Operated Financial Instruments Exchange, in which the person states the following particulars:

- (i) the name and address of the person offering to subscribe; and
- (ii) the number of Shares Issued upon Organizational Conversion for which the person seeks to subscribe.

(3) In lieu of delivering the document referred to in the preceding paragraph, a person making the offer referred to in the preceding paragraph may provide an Incorporated Association-Operated Financial Instruments Exchange with the particulars that are required to be stated in the document referred to in that paragraph by electronic or magnetic means, with the consent of the Incorporated Association-Operated Financial Instruments Exchange and pursuant to the provisions of Cabinet Order. In doing this, the person making the offer is deemed to have delivered the document referred to in that

paragraph.

- (4) If a particular set forth in an item of paragraph (1) changes, the Incorporated Association-Operated Financial Instruments Exchange must immediately notify any person that has made the offer referred to in paragraph (2) (hereinafter referred to as an "Offeror" in this Division) of this, and of the particulars that have changed.
- (5) It is sufficient for a notice or demand that an Incorporated Association-Operated Financial Instruments Exchange issues to an Offeror to be sent to the address referred to in paragraph (2), item (i) (or, if the Offeror notifies the Incorporated Association-Operated Financial Instruments Exchange of another place or contact address for receiving notices or demands, such a place or contact address).
- (6) The notice or demand referred to in the preceding paragraph is deemed to arrive at the time that such a notice or demand would normally arrive.

(Allotment of Shares Issued upon Organizational Conversion)

Article 101-11 (1) An Incorporated Association-Operated Financial Instruments Exchange must decide which persons among the Offerors the Shares Issued upon Organizational Conversion will be allotted to, and decide the number of Shares Issued upon Organizational Conversion that will be allotted to such persons. In this, the Incorporated Association-Operated Financial Instruments Exchange may reduce the number of Shares Issued upon Organizational Conversion that it will allot to such Offerors to below the number referred to in paragraph (2), item (ii) of the preceding Article.

- (2) An Incorporated Association-Operated Financial Instruments Exchange must notify an Offeror of the number of the Shares Issued upon Organizational Conversion that will be allotted to that Offeror by the day immediately preceding the date set forth in Article 101-9, item (iv).

(Subscription for Shares Issued upon Organizational Conversion)

Article 101-12 The Offerors become the subscribers for Shares Issued upon Organizational Conversion, in respect of the number of Shares Issued upon Organizational Conversion that are allotted to them by the Incorporated Association-Operated Financial Instruments Exchange.

(Contribution)

Article 101-13 (1) On the date referred to in Article 101-9, item (iv), a subscriber for Shares Issued upon Organizational Conversion (excluding a person delivering the property referred to in Article 101-9, item (iii) (hereinafter referred to as "Property Contributed in Kind" in this Division)) must pay the full amount to be paid in for the Shares Issued upon Organizational

Conversion for which that subscriber has subscribed, at the Bank, etc. (meaning a Bank, etc. as prescribed in Article 34, paragraph (2) of the Companies Act) specified by the Incorporated Association-Operated Financial Instruments Exchange which constitutes the place accepting payments.

- (2) On the date referred to in Article 101-9, item (iv), a subscriber for Shares Issued upon Organizational Conversion (limited to a person delivering Property Contributed in Kind) must deliver Property Contributed in Kind that is equivalent in value to the entire amount to be paid in for the Shares Issued upon Organizational Conversion for which that subscriber has subscribed.
- (3) A subscriber for Shares Issued upon Organizational Conversion may not set off its obligation to make the payment prescribed in paragraph (1) or to effect the delivery under the provisions of the preceding paragraph (hereinafter referred to as the "Contribution" in this Division) against a claim that the subscriber has against the Incorporated Association-Operated Financial Instruments Exchange.
- (4) The transfer of the right to become the shareholder of Shares Issued upon Organizational Conversion through the making of the Contribution may not be asserted against the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion.
- (5) If a subscriber for Shares Issued upon Organizational Conversion fails to make the Contribution, it loses the right to become the shareholder of Shares Issued upon Organizational Conversion through the making of the Contribution.

(Timing of Becoming a Shareholder)

Article 101-14 A subscriber for Shares Issued upon Organizational Conversion becomes the shareholder of the Shares Issued upon Organizational Conversion for which the subscriber has made the Contribution, on the Effective Date.

(Restriction on the Invalidation or Rescission of a Subscription)

Article 101-15 (1) The provisions of the proviso to Article 93 and Article 94, paragraph (1) of the Civil Code do not apply to the manifestation of an intention involving an offer to subscribe for Shares Issued upon Organizational Conversion or the allotment of such shares.

- (2) Once one year has elapsed since the Effective Date or once the subscriber for Shares Issued upon Organizational Conversion exercises a right in respect of those shares, the subscriber may not assert the invalidity of the subscription for the Shares Issued upon Organizational Conversion on the grounds of a mistake, nor may the subscriber rescind the subscription for the Shares Issued upon Organizational Conversion on the grounds of fraud or duress.

(Contribution of Property Other than Money)

Article 101-16 (1) If, after the registration of incorporation referred to in Article 101-20, paragraph (1), there are shares that are unsubscribed for, the president and board members of the Incorporated Association-Operated Financial Instruments Exchange as of the time of the general meeting resolution referred to in Article 101-2, paragraph (1), and the directors of the Stock Company-Operated Financial Instruments Exchange as of the Effective Date are deemed to have jointly subscribed for those shares. The same applies if an offer to subscribe for shares is rescinded.

(2) If, after the registration of incorporation referred to in Article 101-20, paragraph (1), there are shares that are unpaid for, the president and board members of the Incorporated Association-Operated Financial Instruments Exchange as of the time of the general meeting resolution referred to in Article 101-2, paragraph (1), and the directors of the Stock Company-Operated Financial Instruments Exchange as of the Effective Date have the joint and several obligation to pay for them.

(3) The provisions of Article 207 of the Companies Act and of Article 212 (excluding paragraph (1), item (i)); Article 213 (excluding items (i) and (iii) of paragraph (1)); Article 868, paragraph (1); Article 870 (limited to the part that involves items (ii) and (vii)); Article 871; Article 872 (limited to the part that involves item (iv)); Article 874 (limited to the part that involves item (i)); Article 875; and Article 876 of that Act apply mutatis mutandis if property other than money is the subject of contribution as prescribed in Article 101-9, item (iii). In this case, in Article 207, paragraphs (1) and (7) and paragraph (9), items (ii) to (v) inclusive and Article 212, paragraph (1), item (ii) and paragraph (2) of that Act, the phrase "Article 199 (1)(iii)" is deemed to be replaced with "Article 101-9, item (iii) of the Financial Instruments and Exchange Act"; in Article 207, paragraphs (4) and (6) and paragraph (9), item (iii) and Article 213, paragraph (1), item (ii) of that Act, the term "Ordinance of the Ministry of Justice" is deemed to be replaced with "Cabinet Office Ordinance"; in Article 207, paragraph (8) and Article 212, paragraph (2) of that Act, the phrase "applications for subscription for Shares for Subscription, or his/her manifestation of intention relating to the contract provided for in Article 205" is deemed to be replaced with "the manifestation of an intention involving the offer to subscribe for Shares for Subscription"; in Article 207, paragraph (10), item (i) of that Act, the phrase "A director, an accounting advisor, a company auditor or executive officer" is deemed to be replaced with "The president, a board member, or an inspector of an Incorporated Association-Operated Financial Instruments Exchange"; in Article 212, paragraph (1), item (ii) of that Act, the phrase "Article 209" is deemed to be replaced with "Article 101-14 of the Financial Instruments and Exchange Act"; and any other

necessary technical replacement of terms is specified by Cabinet Order.

(Authorization for Organizational Conversion)

- Article 101-17 (1) An Organizational Conversion does not become effective without the authorization of the Prime Minister.
- (2) A person seeking the authorization referred to in the preceding paragraph must submit a written application for the authorization of an Organizational Conversion to the Prime Minister, in which it states the following particulars about the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion:
- (i) its trade name;
  - (ii) the locations of its head office, branch offices, and any other business offices; and
  - (iii) the names of the officers, and names or trade names of Trading Participants.
- (3) A document detailing the Organizational Conversion plan, as well as the articles of incorporation, the operational rules, and the brokerage contract rules of the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion and other documents specified by Cabinet Office Ordinance, must accompany the written application for the authorization of an Organizational Conversion which is referred to in the preceding paragraph.

(Criteria for Authorization)

- Article 101-18 (1) Whenever an application for authorization under paragraph (2) of the preceding Article is filed, the Prime Minister shall examine whether the application conforms to the following criteria:
- (i) the provisions of the articles of incorporation, the operational rules, and the brokerage contract rules of the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion conform to laws and regulations, and are sufficient for ensuring fair and smooth purchase and sales of Securities and Market Transactions of Derivatives on the Financial Instruments Exchange Market, as well as for protecting investors;
  - (ii) the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion has a sufficient personnel structure to run a Financial Instruments Exchange Market in an appropriate manner; and
  - (iii) the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion will be organized as a Financial Instruments Exchange in a way that conforms to the provisions of this Act.
- (2) If, as a result of having conducted an examination pursuant to the provisions of the preceding paragraph, the Prime Minister finds that an application conforms to the criteria in that paragraph, the Prime Minister shall grant

authorization for Organizational Conversion, except in a case that falls under one of the following items:

- (i) the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion would have a person falling under one of the categories in Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive of this Act, or Article 331, paragraph (1), item (iii) of the Companies Act as an officer; or
- (ii) the application for the authorization of an Organizational Conversion or an accompanying document contains a false statement about a material particular.

(Coming into Effect of Organizational Conversion)

Article 101-19 (1) An Incorporated Association-Operated Financial Instruments Exchange implementing an Organizational Conversion becomes a Stock Company-Operated Financial Instruments Exchange on the Effective Date.

(2) A member of an Incorporated Association-Operated Financial Instruments Exchange implementing an Organizational Conversion becomes a shareholder of the shares set forth in Article 101-2, paragraph (4), item (v), in accordance with the provisions on the particulars set forth in item (iv) of that paragraph on the Effective Date.

(3) The provisions of the preceding two paragraphs do not apply if the process under Article 101-4 is not complete or if the Organizational Conversion is suspended.

(Registration)

Article 101-20 (1) Once an Incorporated Association-Operated Financial Instruments Exchange implements an Organizational Conversion, it must file for a registration of dissolution as regards the Incorporated Association-Operated Financial Instruments Exchange implementing the Organizational Conversion; file for a registration of incorporation as regards the head office of the Stock Company-Operated Financial Instruments Exchange after the Organizational Conversion; and file for a registration of the particulars set forth in the items of Article 930, paragraph (2) of the Companies Act as regards the branch offices of the Stock Company-Operated Financial Instruments Exchange after the Organizational Conversion; and these filings must be done within two weeks from the Effective Date in connection with the principal office and the head office locations, and within three weeks from the Effective Date in connection with the secondary office and branch office locations.

(2) In addition to the documents specified in Articles 18, 19, and 46 of the Commercial Registration Act, the following documents must accompany a written application for the registration of incorporation referred to in the

preceding paragraph:

- (i) the Organizational Conversion plan;
- (ii) the articles of incorporation;
- (iii) the minutes of the general meeting concerning the Organizational Conversion of the Incorporated Association-Operated Financial Instruments Exchange implementing the Organizational Conversion;
- (iv) a document evidencing that the public notice and notice under the provisions of Article 101-4, paragraph (2) have been issued, and if a creditor has stated an objection, a document evidencing that the debt has been paid or commensurate collateral has been provided to that creditor, that commensurate property has been deposited in trust for the purpose of allowing the creditor to receive payment for the debt, or that the Organizational Conversion is unlikely to be detrimental to said creditor;
- (v) a document evidencing the amount of net assets currently existing at the Incorporated Association-Operated Financial Instruments Exchange implementing the Organizational Conversion as of the Effective Date;
- (vi) a document evidencing that the directors of the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion (or, if the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion will be a company with company auditors, the directors and the company auditors) have accepted those positions;
- (vii) if an accounting advisor or accounting auditor has been appointed for the Stock Company-Operated Financial Instruments Exchange after Organizational Conversion, the documents set forth in the items of Article 54, paragraph (2) of the Commercial Registration Act;
- (viii) if the administrator of the shareholder register has been appointed, a document evidencing the contract with that person;
- (ix) if shares have been issued upon Organizational Conversion pursuant to the provisions of Article 101-9, the following documents:
  - (a) a document evidencing the offers to subscribe for shares;
  - (b) if money is the subject of contributions, a document evidencing that the payment under Article 101-13, paragraph (1) has been made; and
  - (c) if property other than money is the subject of contributions, the following documents:
    - 1. if an inspector has been appointed, a document containing the investigation report by the inspector and the annexed documents to the same;
    - 2. in a case set forth in Article 207, paragraph (9), item (iii) of the Companies Act as applied mutatis mutandis pursuant to Article 101-16, paragraph (3), a document evidencing the market price of the Securities;

3. in a case set forth in Article 207, paragraph (9), item (iv) of the Companies Act as applied mutatis mutandis pursuant to Article 101-16, paragraph (3), a document containing the verification prescribed in that item and the annexed documents to the same; and
  4. in a case set forth in Article 207, paragraph (9), item (v) of the Companies Act as applied mutatis mutandis pursuant to Article 101-16, paragraph (3), the account book in which the monetary claim prescribed in that item has been entered.
- (d) if a judicial decision has been reached in connection with a report by an inspector, a certified copy of that judicial decision.
- (3) The provisions of Articles 76 and 78 of the Commercial Registration Act apply mutatis mutandis to the cases set forth in paragraph (1).

(Action to invalidate Organizational Conversion)

Article 102 (1) The provisions of Article 828, paragraph (1) of the Companies Act (limited to the part that involves item (vi)) and of Article 828, paragraph (2) (limited to the part that involves item (vi)); Article 834 (limited to the part that involves item (vi)); Article 835, paragraph (1); Articles 836 to 839 inclusive; Article 846; and Article 937, paragraph (3) (limited to the part that involves item (i)) of that Act apply mutatis mutandis to an action to invalidate the Organizational Conversion of a Incorporated Association-Operated Financial Instruments Exchange. In this case, in Article 828, paragraph (2), item (vi) of that Act, the phrase "Shareholders, etc. or a Partner, etc. of the Company implementing Entity Conversion" is deemed to be replaced with "member, etc. (meaning a member, the president, a board member, aninspector, or a liquidator) of a Incorporated Association-Operated Financial Instruments Exchange implementing the Organizational Conversion" and the term "Shareholders, etc., a Partner, etc., the trustee in bankruptcy or a creditor, who did not give approval to the Entity Conversion, of the Company after Entity Conversion" is deemed to be replaced with "shareholder, etc. (meaning a shareholder, director, or liquidator (or, for a company with a board of company auditors, meaning a shareholder, director, company auditor, or liquidator; and for a company with committees, meaning a shareholder, director, executive officer, or liquidator)), trustee in bankruptcy, or creditor, that did not approve or accept the Organizational Conversion of an Incorporated Association-Operated Financial Instruments Exchange after Organizational Conversion"; in Article 937, paragraph (3) of that Act, the phrase "the head office of each Company" is deemed to be replaced with "the head office and branch offices, and the principal office and secondary offices, of the Financial Instruments Exchange"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(2) The provisions of Article 840 of the Companies Act apply mutatis mutandis to an action to invalidate an Organizational Conversion prescribed in Article 828, paragraph (1) of that Act (limited to the part that involves item (vi)) as applied mutatis mutandis pursuant to the provisions of the preceding paragraph, if the Shares Issued upon Organizational Conversion are issued pursuant to the provisions of Article 101-9; and the provisions of Article 868, paragraph (1) of that Act and the main clause of Article 871; Article 872 (limited to the part that involves item (ii)); the main clause of Article 873; Articles 875 to 877 inclusive; and Article 878, paragraph (1) of that Act apply mutatis mutandis to a petition under Article 840, paragraph (2) of that Act as applied mutatis mutandis pursuant to this paragraph. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

**Subsection 1-2 Self-Regulatory Organizations**  
**Division 1 Incorporation**

(Legal Personality)

Article 102-2 (1) Self-regulatory organizations is a juridical person.

(2) A self-regulatory organization must use the characters " jishu kisei hojin" (meaning "self-regulatory organization") in its name.

(3) A person that is not a self-regulatory organization must not use a term in its name which could give rise to the misconception that it is a self-regulatory organization.

(Founders)

Article 102-3 (1) It is not permissible for a person other than a Financial Instruments Exchange, a Financial Instruments Exchange Holding Company, or a parent Commodity Exchange, etc. (meaning a Commodity Exchange (excluding one that is a Financial Instruments Exchange; the same applies hereinafter) that has a Financial Instruments Exchange as its Subsidiary Company (meaning a Subsidiary Company as prescribed in Article 87-3, paragraph (3); hereinafter the same applies in this paragraph) or a Commodity Exchange Holding Company that has a Financial Instruments Exchange as its Subsidiary Company (excluding a Commodity Exchange Holding Company that is a Financial Instruments Exchange Holding Company; the same applies hereinafter); hereinafter the same applies in this Chapter) to incorporate as a self-regulatory organization.

(2) For a self-regulatory organization to be incorporated, a Financial Instrument Exchange, Financial Instruments Exchange Holding Company, or parent Commodity Exchange, etc. that seeks to be a member must become a founder.

(Articles of Incorporation)

Article 102-4 (1) In order to incorporate as a self-regulatory organization, the founders must prepare articles of incorporation, and all founders must sign or have their names and seals affixed thereto.

- (2) The following particulars must be stated or recorded in the articles of incorporation of a self-regulatory organization:
- (i) its purposes;
  - (ii) its name;
  - (iii) the location of its office;
  - (iv) the particulars of funds and contributions;
  - (v) the particulars of its members;
  - (vi) the particulars of its allocation of costs;
  - (vii) the particulars of its officers;
  - (viii) the particulars of its meetings;
  - (ix) the particulars of its execution of business;
  - (x) the particulars of its preparation of rules;
  - (xi) the particulars of the Self-Regulatory Services it is entrusted with and performs;
  - (xii) the particulars of its accounting; and
  - (xiii) the means of public notice (meaning the means by which the self-regulatory organization makes its public notices (excluding public notices that, pursuant to the provisions of this Act, must be made by means of publication in the Official Gazette); the same applies in Article 102-9, paragraph (2), item (ix)).
- (3) The provisions of Article 30, paragraph (1) of the Companies Act apply mutatis mutandis to the articles of incorporation referred to in paragraph (1).

(Organizational Meetings)

Article 102-5 (1) After preparing the articles of incorporation, the founders must solicit persons seeking to become members, and hold an organizational meeting, making public notice of the articles of incorporation, together with the date, time, and place of the meeting, by two weeks prior to the day of the meeting.

- (2) A person planning to become the member of a self-regulatory organization whose incorporation is planned (hereinafter referred to as an "Expected Member" in this Article) must pay the full amount of contribution before the opening of the organizational meeting.
- (3) Approval of the articles of incorporation and decisions about matters that are otherwise necessary for incorporation must be effected by organizational meeting resolution.
- (4) The articles of incorporation may be amended at an organizational meeting.
- (5) The items of organizational meeting business that are referred to in

paragraph (3) are decided with at least a two-thirds majority of the votes of the attendees, at a meeting where at least half of the Expected Members that have paid the full amount of the contribution by the opening of the meeting, are present.

- (6) An Expected Member that does not pay the full amount of the contribution by the time of the establishment of a self-regulatory organization is deemed to have rescinded its application for membership at the time of the establishment of the self-regulatory organization.

(Provisions Applied Mutatis Mutandis)

Article 102-6 The provisions of Articles 88-5 to 88-21 inclusive apply mutatis mutandis to the incorporation of a self-regulatory organization.

(Mutatis Mutandis Application of Companies Act)

Article 102-7 The provisions of Article 828, paragraph (1) of the Companies Act (limited to the part that involves item (i)) and of Article 828, paragraph (2) (limited to the part that involves item (i)); Article 834 (limited to the part that involves item (i)); Article 835, paragraph (1); Article 836, paragraphs (1) and (3); Articles 837 to 839 inclusive; and Article 846 of that Act apply mutatis mutandis to an action to invalidate the incorporation of a self-regulatory organization. In this case, in Article 828, paragraph (2), item (i) of that Act, the phrase "a Shareholder, etc. (meaning a shareholder, director or liquidator (or, for a Company with Company Auditors, it means a shareholder, director, company auditor or liquidator, and for a Company with Committees, it means a shareholder, director, executive officer, or liquidator); hereinafter the same applies in this Section) of the incorporated Stock Company or a Partner, etc. (meaning a partner or liquidator; hereinafter the same applies in this paragraph) of the incorporated membership company" is deemed to be replaced with "the members, the president and board members, the auditors, or the liquidators of the incorporated Stock Company", and any other necessary technical replacement of terms is specified by Cabinet Order.

## **Division 2 Registration**

(Establishment)

Article 102-8 (1) A self-regulatory organization is established by a registration of its incorporation being recorded in connection with the location of its principal office.

- (2) Except in a case prescribed in the preceding paragraph, the particulars that are required to be registered pursuant to the provisions of this Act may not be asserted against a third party until after their registration.

(Registration)

Article 102-9 (1) A registration of the incorporation of a self-regulatory organization must be made within two weeks from the day of completion of its organizational meetings.

(2) The following particulars must be stated in the registration referred to in the preceding paragraph:

(i) purpose;

(ii) name;

(iii) office address;

(iv) term of operation and grounds for dissolution, if specified;

(v) funds and amount of contributions paid in;

(vi) unit amount of contributions and method of payment;

(vii) name, address, and qualifications of the person with the authority of representation;

(viii) provisions on the scope and limitation of the authority of representation, if; and

(ix) means of public notice.

(Mutatis Mutandis Application of Provisions on the Registration Process)

Article 102-10 The provisions of Articles 89-3 to 89-8 inclusive apply mutatis mutandis to a self-regulatory organization. In this case, in Article 89-4 and Article 89-5, the phrase "Article 89-2, paragraph (2)" is deemed to be replaced with "Article 102-9, paragraph (2)", and any other necessary technical replacement of terms is specified by Cabinet Order.

(Mutatis Mutandis Application of the Commercial Registration Act)

Article 102-11 The provisions of Articles 2 to 5 inclusive of the Commercial Registration Act and Articles 7 to 15 inclusive; Articles 17 to 23-2 inclusive; Article 24 (excluding items (xv) and (xvi)); Articles 25 to 27 inclusive; Article 47, paragraph (1); Articles 48 to 53 inclusive; and Articles 132 to 148 inclusive of that Act apply mutatis mutandis to a registration involving a self-regulatory organization. In this case, in Article 17, paragraph (2), item (i) of that Act, the phrase "trade name and the head office" is deemed to be replaced with "name and the principal office"; in Article 48, Article 49, paragraph (1), Article 50, paragraphs (2) and (4), and Article 138, paragraphs (1) and (2) of that Act, the term "branch office" is deemed to be replaced with "secondary office"; in Article 17, paragraph (3) and Article 20, paragraph (3) of that Act, the phrase "the branch office of the company" is deemed to be replaced with "the secondary office of the self-regulatory organization"; in Article 25, paragraph (3), Article 48, paragraph (1), Article 49, paragraphs (1) and (3), Article 50, paragraphs (1)

to (3) inclusive, Article 51, paragraph (1), Article 53, and Article 138, paragraph (1) of that Act, the term "head office" is deemed to be replaced with "principal office"; in Article 48, paragraph (2) of that Act, the phrase "the items of Article 930, paragraph (2) of the Companies Act" is deemed to be replaced with "the items of Article 102-9, paragraph (2) of the Financial Instruments and Exchange Act"; and any other necessary technical replacement of terms is specified by Cabinet Order.

### **Division 3 Members**

(Eligibility for Membership)

Article 102-12 Membership in a self-regulatory organization is limited to Financial Instruments Exchanges, Financial Instruments Exchange Holding Companies, and parent Commodity Exchanges, etc.

(Provisions Applied Mutatis Mutandis)

Article 102-13 The provisions of Articles 92 to 96 inclusive apply mutatis mutandis to the members of a self-regulatory organization.

### **Division 4 Self-Regulatory Services**

(Self-Regulatory Services by a Self-Regulatory Organization)

Article 102-14 A self-regulatory organization must obtain the authorization of the Prime Minister if it seeks to perform Self-Regulatory Services.

(Application for Authorization)

Article 102-15 (1) A self-regulatory organization seeking the authorization referred to in the preceding Article must submit a written application for authorization to the Prime Minister, in which it states the following particulars:

- (i) its name;
- (ii) the locations of its offices; and
- (iii) the names of its officers, and the trade names and names of its members.

(2) The articles of incorporation, the operational rules, and the documents specified by Cabinet Office Ordinance must accompany the written application for authorization referred to in the preceding paragraph.

(3) The provisions of Article 81, paragraph (3) apply mutatis mutandis to the written application for authorization referred to in paragraph (1).

(Criteria for Authorization)

Article 102-16 (1) Whenever an application for authorization under the

provisions of paragraph (1) of the preceding Article is filed, the Prime Minister shall examine whether the application conforms to the following criteria:

- (i) the provisions of the articles of incorporation and the operational rules conform to laws and regulations, and are sufficient to allow the proper operation of Self-Regulatory Services;
  - (ii) the applicant for authorization has a sufficient personnel structure to administer Self-Regulatory Services in an appropriate manner; and
  - (iii) the applicant for authorization is organized as a self-regulatory organization in a manner that conforms to the provisions of this Act.
- (2) The provisions of Article 82, paragraph (2) apply mutatis mutandis to the application for authorization referred to in the preceding paragraph. In this case, in Article 82, paragraph (2), item (ii), the phrase "Article 106-28, paragraph (1)" is deemed to be replaced with "Article 106-28, paragraph (1), or Article 148, or Article 152, paragraph (1) as applied mutatis mutandis pursuant to Article 153-4, paragraph (1)"; in Article 82, paragraph (2), item (iii), sub-item (b), the phrase "has had its license rescinded pursuant to the provisions of Article 148 or Article 152, paragraph (1)" is deemed to be replaced with "has had its license rescinded pursuant to the provisions of Article 148 or Article 152, paragraph (1) or has had its authorization rescinded pursuant to the provisions of Article 148 or Article 152, paragraph (1) as applied mutatis mutandis pursuant to the provisions of Article 153-4"; in Article 82, paragraph (2), item (ii), sub-item (e), the phrase "Article 150; Article 152, paragraph (1)" is deemed to be replaced with "Article 150 or Article 152, paragraph (1) (including as applied mutatis mutandis pursuant to Article 153-4)"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(Mutatis Mutandis Application of Provisions on Hearings)

Article 102-17 The provisions of Article 85-4 apply mutatis mutandis to Article 102-14 authorization.

(Entrusted Services)

Article 102-18 A self-regulatory organization is entrusted by a Financial Instruments Exchange and performs Self-Regulatory Services for that Financial Instruments Exchange.

(Prohibition of Re-entrustment)

Article 102-19 (1) A self-regulatory organization that has been entrusted with Self-Regulatory Services pursuant to the provisions of the preceding Article may not entrust the Self-Regulatory Services with which it has been entrusted to another person; provided, however, that this does not apply if a self-regulatory organization entrusts another person to perform Specified Services

with the consent of the entrusting Financial Instruments Exchange (meaning the Financial Instruments Exchange that has entrusted a self-regulatory organization with Self-Regulatory Services; hereinafter the same applies in this Chapter).

- (2) The provisions of Article 85, paragraph (5) apply mutatis mutandis if a self-regulatory organization entrusts a person with Specified Services pursuant to the provisions of the proviso to the preceding paragraph. In this case, in paragraph (5) of that Article, the phrase "the preceding paragraph" is deemed to be replaced with "the proviso to Article 102-19, paragraph (1)".

(Termination of Entrustment Relations)

Article 102-20 The Self-Regulatory Services with which a Financial Instrument Exchange entrusts a self-regulatory organization and which that self-regulatory organization performs, terminate if the self-regulatory organization dissolves for a reason set forth in one of the items of Article 102-35, paragraph (1). In such a case, the entrusting Financial Instruments Exchange must perform the Self-Regulatory Services that were under entrustment.

#### **Division 5 Administration**

(Restriction on Services)

Article 102-21 A self-regulatory organization must not perform services for profit.

(Scope of Services)

Article 102-22 A self-regulatory organization may not perform any service other than Self-Regulatory Services and the services incidental thereto.

(Appointment of Officers)

- Article 102-23 (1) A self-regulatory organization has one president, three or more board members, and two or more inspectors as its officers.
- (2) Board members and inspectors are appointed by general meeting resolution.
- (3) The majority of board members must be outside board members (meaning board members elected from among persons that are not directors, board members or executive officers, or managers or other employees of an entrusting Financial Instruments Exchange and its Subsidiary Companies (meaning Subsidiary Companies as prescribed in Article 87-3, paragraph (3); hereinafter the same applies in this Chapter) and that have at no time in the past served as directors, board members or executive officers, or managers or other employees of the entrusting Financial Instruments Exchange or its Subsidiary Company; hereinafter the same applies in this Division).

- (4) A person that falls under one of the categories prescribed in Article 29-4, paragraph (1), item (i), sub-items (a) to (g) inclusive of this Act, or Article 331, paragraph (1), item (iii) of the Companies Act may not become an officer.
- (5) An officer loses that position if the officer comes to fall under a category of a person prescribed in the preceding paragraph.
- (6) The president is appointed from among the outside board members, based on a vote among the board members.

(Duties of the Officers)

Article 102-24 (1) A president represents a self-regulatory organization and presides over its affairs.

- (2) A board member, pursuant to the provisions of the articles of incorporation, represents a self-regulatory organization, assists the president in administering the affairs of the self-regulatory organization, acts as a proxy in handling the duties of the president if the president is unable to attend to them, and performs the duties of the president if the position is vacant.
- (3) An inspector examines the affairs of a self-regulatory organization.

(Term of Office of Board Members)

Article 102-25 (1) The term of office of a board member continues until the conclusion of the general meeting for the last business year that ends within two years from the time of the appointment.

- (2) A board member may be reappointed only twice.
- (3) A board member is not dismissed unless it is agreed upon at a general meeting, through a resolution by at least a four-fifths majority of the attending members, at a general meeting where the majority of the members are present.

(Board Members' Attendance at Board of Directors Meetings)

Article 102-26 A board member may attend a meeting of the board of directors or the board meeting of an entrusting Financial Instruments Exchange and state an opinion, if the board member finds this to be necessary.

(The Holding of Board Meetings)

Article 102-27 (1) A self-regulatory organization board (hereinafter referred to as a "Board" in this Subsection) must meet at least once every three months.

- (2) The president calls the Board Meetings.

(Board Members' Demand for the Calling of a Board Meeting)

Article 102-28 A board member may demand that the president call a Board Meeting by specifying the purpose of the Board Meeting and the grounds for calling one.

(Procedures for Calling Board Meetings)

Article 102-29 (1) A person that calls a Board Meeting must issue notice of this to each board member no later than one week prior to the day of the Board Meeting (or, if a shorter period has been specified at a Board Meeting, such a period).

(2) Notwithstanding the provisions of the preceding paragraph, with the consent of all of the board members, a Board Meeting may be held without the procedures for calling meetings being followed.

(Board Meeting Resolutions)

Article 102-30 (1) A Board Meeting resolution is adopted by a majority of the attending board members, and by a majority of the attending outside board members, at a Board Meeting where the majority of the board members that are entitled to participate in the vote, are present.

(2) A board member with a special interest in the resolution referred to the preceding paragraph may not participate in the vote.

(3) The minutes of a Board Meeting must be prepared pursuant to the provisions of Cabinet Office Ordinance, and if the minutes are prepared in writing, the board members present at the meeting must sign them or have their names and seals affixed to them.

(4) If the minutes referred to in the preceding paragraph are prepared as electronic or magnetic records, relevant persons must use the measures in lieu of signing or having their names and seals affixed which are specified by Cabinet Office Ordinance, for the matters recorded in electronic or magnetic records.

(Minutes)

Article 102-31 (1) A self-regulatory organization shall keep the minutes referred to in paragraph (3) of the preceding Article at its principal office for a ten-year period beginning from the day of the Board Meeting.

(2) If it is necessary in order for the member of a self-regulatory organization to exercise its rights, with the permission of the court, the member may request to inspect or copy the following things as respects the minutes referred to in the preceding paragraph:

(i) if the minutes referred to in the preceding paragraph are prepared in writing, the relevant written document; and

(ii) if the minutes referred to in the preceding paragraph are prepared as electronic or magnetic records, something that shows the particulars that have been recorded in such electronic or magnetic records, through a means specified by Cabinet Office Ordinance.

- (3) The court may not give the permission referred to in the preceding paragraph if it finds that the inspection or copying to which the request referred to in the preceding paragraph pertains is likely to cause substantial detriment to the relevant Entrusting Financial Instruments Exchange, to a person that has that Entrusting Financial Instruments Exchange as its Subsidiary Company, or to a Subsidiary Company of that Entrusting Financial Instruments Exchange.
- (4) The provisions of Article 868, paragraph (1) of the Companies Act and of Article 869; Article 870 (limited to the part that involves item (i)); the main clause of Article 871; Article 872 (limited to the part that involves item (iv)); the main clause of Article 873; Article 875; and Article 876 of that Act apply mutatis mutandis to the permission referred to in paragraph (2). The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Treatment of Changes in Operational Rules)

Article 102-32 An entrusting Financial Instruments Exchange must obtain the consent of the Entrusted Self-Regulatory Organization if it seeks to change or discontinue a particular that is prescribed in the operational rules or other rules of the Financial Instruments Exchange, and that is specified by Cabinet Office Ordinance as being connected with Self-Regulatory Services.

(Advice on Necessary Measures from the Board)

- Article 102-33 (1) If the Board finds it to be necessary, it may give advice to an entrusting Financial Instruments Exchange about the necessary measures that should be taken in order to ensure fair and smooth purchase and sales of Securities and Market Transactions of Derivatives on a Financial Instruments Exchange Market operated by the entrusting Financial Instruments Exchange, and to contribute to the sound development of the Financial Instruments Business and to the protection of investors.
- (2) If the Board gives the advice referred to in the preceding paragraph, and the entrusting Financial Instruments Exchange that receives the advice takes it, it shall report to the Board the details of the measures taken; if the entrusting Financial Instruments Exchange does not take that advice, it shall report to the Board that it has not taken any measures.

(Reporting Business to the Board)

- Article 102-34 (1) An entrusting Financial Instruments Exchange must periodically report the status of business execution to the Board, pursuant to the provisions of Cabinet Office Ordinance.
- (2) The Board may request the president, the directors and executive officers, and the managers and other employees of an entrusting Financial Instruments Exchange to report the particulars of the discharge of their duties.

## **Division 6 Dissolution**

(Grounds for Dissolution of a Self-Regulatory Organization)

Article 102-35 (1) A self-regulatory organization is dissolved for the following reasons:

- (i) the occurrence of a cause for dissolution specified by the articles of incorporation;
- (ii) a general meeting resolution;
- (iii) the self-regulatory organization comes to have no members;
- (iv) an order to commence bankruptcy proceedings;
- (v) the failure to file an application for authorization under the provisions of Article 102-15, paragraph (1) within six months from the day of establishment;
- (vi) the decision of the Prime Minister not to grant Article 102-14 authorization; or
- (vii) rescission of Article 102-14 authorization.

(2) A self-regulatory organization may not adopt a resolution to dissolve without the affirmative votes of at least three-fourths of all members; provided, however, that this does not apply if it is otherwise provided for in the articles of incorporation.

(Mutatis Mutandis Application of Provisions on the Dissolution Process)

Article 102-36 The provisions of Articles 100-2 to 100-16 inclusive and Articles 100-18 to 100-23 inclusive apply mutatis mutandis to a self-regulatory organization. In this case, in Article 100-3, the phrase "Article 100, paragraph (1) (excluding items (iii) and (v))" is deemed to be replaced with "Article 102-35 (excluding item (iv))"; in Article 100-4, Article 100-6, and Article 100-9, the phrase "Article 100-17, paragraph (1)" is deemed to be replaced with "Article 102-37, paragraph (1)"; in Article 100-5, paragraph (2), the phrase "rescinding the license referred to in Article 80, paragraph (1)" is deemed to be replaced with "rescinding the authorization referred to Article 102-14"; in Article 100-6, the phrase "Article 100-4" is deemed to be replaced with "Article 100-4 as applied mutatis mutandis pursuant to Article 102-36"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(Mutatis Mutandis Application of the Companies Act)

Article 102-37 (1) The provisions of Article 492, paragraphs (1) and (3) of the Companies Act and of Article 507 (excluding paragraph (2)); Article 644 (excluding item (iii)); Article 647, paragraphs (1) and (4); Article 650, paragraph (2); Article 655, paragraphs (1) to (5) inclusive; and Articles 662 to

664 inclusive of that Act apply mutatis mutandis to the dissolution and liquidation of a self-regulatory organization. In this case, in Article 492, paragraph (1) of that Act, the phrase "Liquidators (or, for Companies with Board of Liquidators, liquidators listed in each item of paragraph (7) of Article 489)" is deemed to be replaced with "A liquidator"; in the same paragraph and in Article 507, paragraph (1) of that Act, the term "Ordinance of the Ministry of Justice" is deemed to be replaced with "Cabinet Office Ordinance"; in Article 492, paragraph (3) and Article 507, paragraph (3) of that Act, the term "shareholders meeting" is deemed to be replaced with "general meeting"; in Article 644, item (i) of that Act, the phrase "have dissolved on the grounds set forth in item (v) of Article 641 or unless membership companies have dissolved as a result of a ruling for commencement of bankruptcy procedures and such bankruptcy procedures have not ended" is deemed to be replaced with "have dissolved as a result of an order to commence bankruptcy proceedings and the bankruptcy proceedings have not ended"; in Article 647, paragraph (1), item (i) of that Act, the phrase "A partner who executes the operations" is deemed to be replaced with "The president and a board member"; in item (iii) of that paragraph, the phrase "prescribed by the consent of a majority of partners (or, if partners who execute the operations are provided for in the articles of incorporation, those partners)" is deemed to be replaced with "appointed by general meeting resolution"; in Article 655, paragraph (3) of that Act, the phrase "from among themselves" is deemed to be replaced with "from among themselves or based on a general meeting resolution"; in paragraph (4) of that Article, the phrase "partners who execute the operations" is deemed to be replaced with "the president or board members", the phrase "if the partners that represent the membership company are already prescribed" is deemed to be replaced with "if the president or the board members that represent it are already prescribed in the articles of incorporation", and the phrase "such partners that represent" is deemed to be replaced with "the president or board member (excluding a president or board member whose authority of representation is limited by the articles of incorporation) that represents"; and any other necessary technical replacement of terms is specified by Cabinet Order.

- (2) The provisions of Article 868, paragraph (1) of the Companies Act and of Article 871; Article 874 (limited to the part that involves item (i)); Article 875; and Article 876 of that Act apply mutatis mutandis to the liquidation of a self-regulatory organization. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Liquidators' Capacity in Respect of Tortious Acts)

Article 102-38 The provisions of Article 88-9, Articles 88-12 to 88-15 inclusive,

and Article 100-23 apply mutatis mutandis when the liquidator of a self-regulatory organization performs liquidation duties. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Mutatis Mutandis Application of the Commercial Registration Act)

Article 102-39 The provisions of Article 71, paragraph (1) of the Commercial Registration Act apply mutatis mutandis to registration of the dissolution of a self-regulatory organization under this Act.

**Subsection 2 Stock Companies That Operate Financial Instruments  
Exchange Markets  
Division 1 General Provisions**

(Articles of Incorporation)

Article 103 In addition to the matters set forth in the items of Article 27 of the Companies Act, the following particulars must be stated or recorded in the articles of incorporation of a Stock Company-Operated Financial Instruments Exchange:

- (i) the particulars involved in investigations into Trading Participants' compliance with laws and regulations, dispositions by government agencies which are based on laws and regulations, the articles of incorporation and other rules, and the principle of good faith in their transactions;
- (ii) the particulars of the preparation of rules;
- (iii) the particulars of the Financial Instruments Exchange Markets; and
- (iv) if a self-regulatory committee will be established, an indication of this.

(Restrictions on the Holding of Voting Rights)

Article 103-2 (1) It is prohibited for any person to acquire or hold a number of voting rights (excluding the voting rights that are specified by Cabinet Office Ordinance in consideration of the manner in which they are acquired or held and any other circumstances; hereinafter referred to as "Subject Voting Rights" in this Chapter) constituting 20 percent or more (or 15 percent or more, if a fact has occurred that is specified by Cabinet Office Ordinance as something that is presumed to have a material influence on decisions about financial and operational policies; hereinafter referred to as the "Threshold Holding Ratio" in this Chapter) of all shareholders' voting rights in a Stock Company-Operated Financial Instruments Exchange; provided, however, that this does not apply if an Authorized Financial Instruments Business Association, Financial Instruments Exchange, Financial Instruments Exchange Holding Company, Commodity Exchange, or Commodity Exchange Holding Company acquires or holds Subject Voting Rights.

- (2) If the number of Subject Voting Rights that the person holds does not increase or in any other case specified by Cabinet Office Ordinance, the provisions of the main clause of the preceding paragraph do not apply to a person acquiring or holding a number of Subject Voting Rights in a Stock Company-Operated Financial Instruments Exchange which is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights.
- (3) In the case referred to in the preceding paragraph, a person that comes to acquire or hold a number of Subject Voting Rights in a Stock Company-Operated Financial Instruments Exchange which is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights (hereinafter referred to as a "Specified Holder" in this Article) shall notify the Prime Minister without delay that that person has become a Specified Holder, and of the matters specified by Cabinet Office Ordinance.
- (4) In the case referred to in paragraph (2), a Specified Holder must take the necessary measures to become the holder of a number of Subject Voting Rights in the Stock Company-Operated Financial Instruments Exchange which is less than the Threshold Holding Ratio within three months from the day on which the person becomes a Specified Holder; provided, however, that this does not apply if the Specified Holder is a Local Government, etc. provided for in Article 106-3, paragraph (1) and that Local Government, etc. has obtained the authorization of the Prime Minister pursuant to the provisions of that paragraph.
- (5) With regard to the application of the provisions of the preceding paragraphs to a case set forth in one of the following items, the relevant person is deemed to acquire or hold the Subject Voting Rights prescribed in the relevant item:
- (i) a person has or will have the authority to exercise Subject Voting Rights in a Stock Company-Operated Financial Instruments Exchange or the authority to give instructions on the exercise of such voting rights, pursuant to the provisions of a money trust contract or other contract or based on the provisions of law: the Subject Voting Rights in question; and
  - (ii) a person that is related to the person in question through a shareholding relationship, familial relationship, or other special relationship specified by Cabinet Order, acquires or holds Subject Voting Rights in a Stock Company-Operated Financial Instruments Exchange: the Subject Voting Rights acquired or held by the person with the special relationship to the person in question.
- (6) Necessary particulars relevant to the application of the provisions of each of the preceding paragraphs are specified by Cabinet Order.

(Submission of a Statement of Holdings in Subject Voting Rights)

Article 103-3 (1) A person that becomes the holder of Subject Voting Rights

exceeding five percent of all shareholders' voting rights in a Stock Company-Operated Financial Instruments Exchange (hereinafter referred to as the "Holder of Subject Voting Rights" in this paragraph) must submit a statement of holdings in Subject Voting Rights to the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance and without delay, in which the holder states the Subject Voting Rights holding rate (meaning the rate arrived at by dividing the number of Subject Voting Rights held by the Holder of Subject Voting Rights by the number representing all shareholders' voting rights in the Stock Company-Operated Financial Instruments Exchange), the purpose of the holding, and the matters otherwise specified by Cabinet Office Ordinance.

(2) The provisions of paragraph (5) of the preceding Article apply mutatis mutandis when the provisions of the preceding paragraph are applicable.

(Collection of Reports and Inspection of a Person Submitting a Statement of Holdings in Subject Voting Rights)

Article 103-4 If the Prime Minister suspects that a statement of holdings in Subject Voting Rights which is referred to in paragraph (1) of the preceding Article contains a false statement or omits a statement as to a particular that is required to be stated, the Prime Minister may order the person submitting the statement of holdings in Subject Voting Rights to submit reports or materials that should serve as a reference, or may have the relevant officials inspect the documents and other articles of that person (but only as is necessary in connection with the statements contained in the statement of holdings in Subject Voting Rights).

(Public Inspection of the Total Number of Issued Shares)

Article 104 A Stock Company-Operated Financial Instruments Exchange must make available for public inspection its total number of issued shares, the number that represents all shareholders' voting rights, and other matters specified by Cabinet Office Ordinance, pursuant to the provisions of Cabinet Office Ordinance.

(Eligibility as a Director)

Article 104-2 The provisions of the proviso to paragraph (2) of Article 331 of the Companies Act (including as applied mutatis mutandis pursuant to Article 335, paragraph (1) of that Act) and of Article 332, paragraph (2) (including as applied mutatis mutandis pursuant to Article 334, paragraph (1) of that Act); Article 336, paragraph (2); and the proviso to Article 402, paragraph (5) of that Act do not apply to a Stock Company-Operated Financial Instruments Exchange.

(Authorization for a Reduction of Capital)

Article 105 (1) A Stock Company-Operated Financial Instruments Exchange must obtain the authorization of the Prime Minister if it seeks to reduce its stated capital.

(2) A Stock Company-Operated Financial Instruments Exchange must notify the Prime Minister pursuant to the provisions of Cabinet Office Ordinance if it seeks to increase its stated capital.

(Special Provisions on Officers)

Article 105-2 The provisions of Article 98, paragraphs (4) and (5) apply mutatis mutandis to the officers of a Stock Company-Operated Financial Instruments Exchange.

(The Court's Request for an Investigation)

Article 105-3 (1) In liquidation proceedings, bankruptcy proceedings, rehabilitation proceedings, reorganization proceedings, or recognition and assistance proceedings for a Stock Company-Operated Financial Instruments Exchange, the court may request the opinion of, or an inspection or investigation by, the Prime Minister.

(2) If the Prime Minister finds it to be necessary, the Prime Minister may state an opinion to the court during the proceedings prescribed in the preceding paragraph.

## **Division 2 Self-Regulatory Committee**

(Authority)

Article 105-4 (1) A Stock Company-Operated Financial Instruments Exchange may set in place a self-regulatory committee pursuant to the provisions of its articles of incorporation, unless Self-Regulatory Services are entrusted to a self-regulatory organization.

(2) A self-regulatory committee makes the decisions about matters related to the Self-Regulatory Services of the Stock Company-Operated Financial Instruments Exchange that has in place that self-regulatory committee (hereinafter referred to as a "Specified Stock Company-Operated Financial Instruments Exchange" in this Division).

(3) A self-regulatory committee is deemed to be entrusted by the board of directors with decisions about matters related to Self-Regulatory Services.

(4) Notwithstanding the provisions of Article 362, paragraph (4) and Article 416, paragraph (4) of the Companies Act, the self-regulatory committee of a Specified Stock Company-Operated Financial Instruments Exchange may not entrust executive officers or directors with a decision about a matter related to

Self-Regulatory Services.

- (5) Notwithstanding the provisions of Article 362, paragraph (4) and Article 416, paragraph (4) of the Companies Act, the board of directors of a Specified Stock Company-Operated Financial Instruments Exchange may not entrust the authority to select the members of a self-regulatory committee provided for in paragraph (2) of the following Article or to remove the members of a self-regulatory committee provided for in Article 105-7, paragraph (1), to an executive officer or director.

(Organization)

- Article 105-5 (1) A self-regulatory committee must be composed of three or more members, and the majority of those members must be outside directors.
- (2) Members of the self-regulatory committee are selected from among the directors of a Specified Stock Company-Operated Financial Instruments Exchange by resolution of the board of directors.
- (3) The resolution referred to in the preceding paragraph is adopted by a majority (or, if a higher proportion is provided for in the articles of incorporation, at least such a proportion) of the attending directors, and by a majority of the attending outside directors, at a meeting where the majority (or, if a higher proportion is provided for in the articles of incorporation, at least such a proportion) of the directors that are entitled to participate in the vote, are present.
- (4) The self-regulatory committee has a self-regulatory committee chairperson, and this chairperson is designated from among the outside directors based on a vote among the members of the self-regulatory committee.
- (5) The chairperson of the self-regulatory committee presides over the affairs of the self-regulatory committee.
- (6) The self-regulatory committee must designate a person from among the members of the self-regulatory committee to act as a proxy in handling the duties of the chairperson of the self-regulatory committee in the event that the chairperson is unable to attend to them, in advance.

(Term of Office)

- Article 105-6 (1) The term of office of a self-regulatory committee member continues until the conclusion of the annual shareholders meeting for the last business year that ends within one year from the time of the member's selection.
- (2) The members of a self-regulatory committee may be reselected only four times.

(Removal)

- Article 105-7 (1) The member of a self-regulatory committee may be removed by

a resolution of the board of directors of the Specified Stock Company-Operated Financial Instruments Exchange.

- (2) The resolution referred to in the preceding paragraph is adopted by a majority (or, if a higher proportion is provided for in the articles of incorporation, at least such a proportion) of the attending directors, and by a majority of the attending members of the self-regulatory committee, at a meeting where the majority (or, if a higher proportion is provided for in the articles of incorporation, at least such a proportion) of the directors that are entitled to participate in the vote, are present.
- (3) If there is a position vacancy that results in a shortfall in the number of members of a self-regulatory committee provided for in Article 105-5, paragraph (1), a member of the self-regulatory committee that has left the position due to the expiration of the term of office or because the member resigned, continues to have rights and obligations as a member of the self-regulatory committee until a newly selected self-regulatory committee member (including a person as referred to in the following paragraph that will temporarily perform the duties of a member of the self-regulatory committee) assumes that position.
- (4) In the case prescribed in the preceding paragraph, if the court finds it to be necessary, it may appoint a person to temporarily perform the duties of a member of the self-regulatory committee, at the petition of an interested party.
- (5) If the court appoints a person to temporarily perform the duties of a member of a self-regulatory committee as referred to in the preceding paragraph, it may set the amount of remuneration that the Specified Stock Company-Operated Financial Instruments Exchange is to pay to that person.
- (6) The provisions of Article 868, paragraph (1) of the Companies Act and of Article 870 (limited to the part that involves item (ii)); Article 871; Article 872 (limited to the part that involves item (iv)); Article 874 (limited to the part that involves item (i)); Article 875; and Article 876 of that Act apply mutatis mutandis if the petition referred to in paragraph (4) is filed. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Appointment and Dismissal of Directors)

Article 105-8 The provisions of Article 105-5, paragraph (3) apply mutatis mutandis if a Specified Stock Company-Operated Financial Instruments Exchange which is a company with a board of company auditors reaches a decision on the contents of proposals regarding the appointment and dismissal of directors to be submitted to the shareholders at a shareholders meeting.

(Emergency Handling)

Article 105-9 (1) Notwithstanding the provisions of Article 105-4, paragraphs (2)

and (3), if the representative director or representative executive officer of a Specified Stock Company-Operated Financial Instruments Exchange finds it to be particularly necessary for ensuring the public interest or the protection of investors, and there is an urgent necessity in light of the circumstances, the representative director or representative executive officer may make a decision to delist or a decision about any other matter related to Self-Regulatory Services that is specified by Cabinet Office Ordinance.

(2) If a Specified Stock Company-Operated Financial Instruments Exchange decides to delist or makes a decision about any other matter related to Self-Regulatory Services that is specified by Cabinet Office Ordinance pursuant to the provisions of the preceding paragraph, the representative director or the representative executive officer of the Specified Stock Company-Operated Financial Instruments Exchange must promptly report this to the self-regulatory committee.

(Enjoinment of the Act of an Executive Officer or Director)

Article 105-10 (1) If the executive officer or director of a Specified Stock Company-Operated Financial Instruments Exchange acts or is likely to act in an way that violates a decision of the self-regulatory committee with regard to Self-Regulatory Services, and if that act is likely to substantially compromise the appropriate operation of Self-Regulatory Services, a member of the self-regulatory committee may demand the executive officer or director to cease engaging in that act.

(2) In the case referred to in the preceding paragraph, if the court issues a provisional disposition ordering the executive officer or director referred to in that paragraph to cease engaging in that act, the court is not to make the executive officer or director provide collateral.

(Treatment of a Change in the Operational Rules)

Article 105-11 A Specified Stock Company-Operated Financial Instruments Exchange must obtain the consent of the self-regulatory committee if it seeks to change or discontinue a particular that is prescribed in the operational rules or other rules of the Stock Company-Operated Financial Instruments Exchange, and that is specified by Cabinet Office Ordinance as being related to Self-Regulatory Services.

(Convenor)

Article 105-12 The self-regulatory committee is convened by the chairperson of the self-regulatory committee prescribed in Article 105-5, paragraph (4) (or by the person that acts as a proxy in handling the duties of the chairperson of the self-regulatory committee as prescribed in Article 105-5, paragraph (6), if the

chairperson of the self-regulatory committee is unable to attend to those duties; the same applies to the following Article and Article 105-14).

(Demand for the Calling of a Meeting)

Article 105-13 The member of a self-regulatory committee may demand that the chairperson of the self-regulatory committee call a meeting of the self-regulatory committee by specifying the purpose of a self-regulatory committee meeting and showing grounds for calling one.

(Procedures for Calling Meetings)

Article 105-14 (1) To call a meeting of the self-regulatory committee, the chairperson of the self-regulatory committee must give a notice of the meeting to each member of the self-regulatory committee, no later than one week prior to the day of the self-regulatory committee meeting (or, if a shorter period has been specified by the self-regulatory committee, such a period).

(2) Notwithstanding the provisions of the preceding paragraph, with the consent of all members of the self-regulatory committee, a meeting of the self-regulatory committee may be held without the procedures for calling meetings being followed.

(3) If the executive officer, director, accounting advisor, or accounting auditor of a Specified Stock Company-Operated Financial Instruments Exchange is so requested by the self-regulatory committee, the officer, director, accounting advisor, or accounting auditor must attend a meeting of the self-regulatory committee and explain a matter regarding which the self-regulatory committee requests an explanation.

(Resolutions)

Article 105-15 (1) A self-regulatory committee resolution is adopted by a majority of the attending members of the self-regulatory committee, and by a majority of the attending members of the self-regulatory committee that are outside directors, at a meeting where the majority of the members of the self-regulatory committee that are entitled to participate in the vote, are present.

(2) A member of the self-regulatory committee with a special interest in the resolution referred to in the preceding paragraph may not participate in the vote.

(3) The minutes of a self-regulatory committee meeting must be prepared pursuant to the provisions of Cabinet Office Ordinance, and if the minutes are prepared in writing, the members of the self-regulatory committee present at the meeting must sign them or have their names and seals affixed to them.

(4) Without delay following a resolution under paragraph (1), the member of a self-regulatory committee that the self-regulatory committee selects shall,

report the content of the resolution to the board of directors.

- (5) If the minutes prescribed in the paragraph (3) are prepared as electronic or magnetic records, the relevant persons must use the measures in lieu of signing or having their names and seals affixed which are specified by Cabinet Office Ordinance shall be taken, for the particulars that are recorded in the electronic or magnetic records.
- (6) Beyond what is provided for in the preceding paragraphs, meeting procedures and necessary particulars otherwise relevant to the operation of the self-regulatory committee are specified by the self-regulatory committee.

(Minutes)

Article 105-16 (1) A Specified Stock Company-Operated Financial Instruments Exchange shall keep the minutes referred to in paragraph (3) of the preceding Article at its head office for a ten-year period beginning from the day of the self-regulatory committee meeting.

- (2) The directors of the Stock Company-Operated Financial Instruments Exchange may inspect or copy the following:
  - (i) if the minutes referred to in the preceding paragraph are prepared in writing, the relevant written documents; and
  - (ii) if the minutes referred to in the preceding paragraph are prepared as electronic or magnetic records, something that shows the particulars that have been recorded in such electronic or magnetic records, through a means specified by Cabinet Office Ordinance.
- (3) If it is necessary in order for the shareholder of a Stock Company-Operated Financial Instruments Exchange to exercise its rights, with the permission of the court, the shareholder may request to inspect or copy the things set forth in the items of the preceding paragraph as respects the minutes referred to in paragraph (1).
- (4) The provisions of the preceding paragraph apply mutatis mutandis if it is necessary in order for the creditor of a Stock Company-Operated Financial Instruments Exchange to inquire into the liability of the members of the self-regulatory committee, or if it is necessary in order for the shareholders or members of a person that has such a Stock Company-Operated Financial Instruments Exchange as its Subsidiary Company to exercise their voting rights.
- (5) The court may not give the permission referred to in paragraph (3) (including as applied mutatis mutandis pursuant to the provisions of the preceding paragraph; hereinafter the same applies in this and the following paragraphs) if it finds that the inspection or copying to which the request referred to in that paragraph pertains is likely to cause substantial detriment to the Stock Company-Operated Financial Instruments Exchange, to a person that has the

Stock Company-Operated Financial Instruments Exchange as its Subsidiary Company, or to a Subsidiary Company of that Stock Company-Operated Financial Instruments Exchange.

(6) The provisions of Article 868, paragraph (1) of the Companies Act or of Article 869; Article 870 (limited to the part that involves item (i)); the main clause of Article 871; Article 872 (limited to the part that involves item (iv)); the main clause of Article 873; Article 875; and Article 876 of that Act apply mutatis mutandis to the permission referred to in paragraph (3). The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Omission of Reports)

Article 105-17 If the executive officer, director, accounting advisor, or accounting auditor of a Specified Stock Company-Type Financial Instruments Exchange Stock Company-Operated Financial Instruments Exchange notifies all members of the self-regulatory committee of the particulars that are required to be reported to the self-regulatory committee, it is not required that those particulars be reported to the self-regulatory committee.

(Public Inspection)

Article 105-18 A Specified Stock Company-Operated Financial Instruments Exchange shall make the directory of the members of the self-regulatory committee available for public inspection.

(Decisions That Allow a Self-Regulatory Committee to Discharge Its Functions)

Article 106 The board of directors of a Specified Stock Company-Operated Financial Instruments Exchange must reach a decision on the particulars that are specified by Cabinet Office Ordinance as being necessary in order to allow the self-regulatory committee to discharge its functions.

(Attendance of the Company Auditors)

Article 106-2 The company auditor of a Specified Stock Company-Operated Financial Instruments Exchange that is a company with a board of company auditors, or the audit committee member selected by the audit committee of a Specified Stock Company-Operated Financial Instruments Exchange that is a company with committees, may attend a meeting of the self-regulatory committee of the Specified Stock Company-Operated Financial Instruments Exchange to state an opinion, if the company auditor or audit committee member finds this to be necessary.

### **Division 3 Major Shareholders**

(Authorization)

- Article 106-3 (1) Notwithstanding the provisions of Article 103-2, paragraph (1), the local government or any other person specified by Cabinet Order (hereinafter collectively referred to as the "Local Government, etc." in this Article, Article 106-14 and Article 106-17) may, with the authorization of the Prime Minister, acquire or hold a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio, but no greater than 50 percent, of all shareholders' voting rights in a Stock Company-Operated Financial Instruments Exchange, pursuant to the provisions of Cabinet Office Ordinance.
- (2) Notwithstanding the provisions of the preceding paragraph and Article 103-2, paragraph (1), if the number of Subject Voting Rights that it holds does not increase, or in any other case specified by Cabinet Office Ordinance, a Local Government, etc. that has obtained the authorization referred to in the preceding paragraph may acquire or hold Subject Voting Rights exceeding 50 percent of all shareholders' voting rights in a Stock Company-Operated Financial Instruments Exchange.
- (3) In the case referred to in the preceding paragraph, the Local Government, etc. that has come to acquire or hold Subject Voting Rights exceeding 50 percent of all shareholders' voting rights in a Stock Company-Operated Financial Instruments Exchange (hereinafter referred to as a "Specified Holding Entity, etc." in this Article) shall notify the Prime Minister without delay that it has become a Specified Holding Entity, etc. and of the other matters specified by Cabinet Office Ordinance.
- (4) In the case referred to in paragraph (2), the Specified Holding Entity, etc. shall take the necessary measures for it to become the holder of a number of Subject Voting Rights that constitutes 50 percent or less of all shareholders' voting rights in the Stock Company-Operated Financial Instruments Exchange, within three months from the day on which it becomes a Specified Holding Entity, etc.
- (5) If, pursuant to the provisions of the preceding paragraph, a Specified Holding Entity, etc. becomes the holder of a number of Subject Voting Rights that constitutes 50 percent or less of all shareholders' voting rights in the Stock Company-Operated Financial Instruments Exchange, it must notify the Prime Minister of this without delay.
- (6) The provisions of Article 30-2 apply mutatis mutandis to the authorization referred to in paragraph (1).

(Criteria for Authorization)

- Article 106-4 (1) Whenever an application is filed for the authorization referred to in paragraph (1) of the preceding Article, the Prime Minister shall examine

whether the application conforms to the following criteria:

- (i) the applicant for authorization's exercise of the Subject Voting Rights is not likely to impair the sound and appropriate operation of the business of the Stock Company-Operated Financial Instruments Exchange; and
  - (ii) the applicant for authorization has a sufficient understanding of the public nature of the business of a Financial Instruments Exchange.
- (2) The provisions of Article 82, paragraph (2) apply mutatis mutandis to the authorization referred to in paragraph (1) of the preceding Article. In this case, in Article 82, paragraph (2), the phrase "the preceding paragraph" is deemed to be replaced with "Article 106-4, paragraph (1)", the phrase ", Article 156-17, paragraph (1) or (2)" is deemed to be replaced with ", Article 156-17, paragraph (1) or (2); Article 156-20-14, paragraph (1) or (2)", and the phrase ", Article 106-28, paragraph (1)" is deemed to be replaced with ", Article 106-28, paragraph (1); Article 155-6, Article 155-10, paragraph (1)".

(Mutatis Mutandis Application of Provisions on the Refusal of Authorization)

Article 106-5 The provisions of Article 85-4 apply mutatis mutandis to the authorization referred to in Article 106-3, paragraph (1).

(Collection of Reports and Inspections)

Article 106-6 (1) If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order the major shareholder of a Stock Company-Operated Financial Instruments Exchange (meaning a person that has obtained authorization under Article 106-3, paragraph (1); hereinafter the same applies in this Division) to submit reports or materials of reference in connection with the business or assets of the Stock Company-Operated Financial Instruments Exchange, or may have the relevant officials inspect the documents and other articles of such a major shareholder (but only as is necessary in connection with the business or assets of the Stock Company-Operated Financial Instruments Exchange).

- (2) The provisions of the preceding paragraph apply mutatis mutandis to a Commodity Exchange or Commodity Exchange Holding Company that holds a number of Subject Voting Rights in a Stock Company-Operated Financial Instruments Exchange which is equal to or greater than the Threshold Holding Ratio.

(Supervisory Measures)

Article 106-7 (1) If the major shareholder of a Stock Company-Operated Financial Instruments Exchange violates a law or regulation or if it is found that the conduct of a major shareholder is likely to impair the sound and

appropriate operation of the business of a Stock Company-Operated Financial Instruments Exchange, the Prime Minister may rescind the major shareholder's Article 106-3, paragraph (1) authorization or order the major shareholder to take measures that are necessary from a supervisory perspective.

- (2) A person that has the authorization referred to in Article 106-3, paragraph (1) rescinded pursuant to the provisions of the preceding paragraph must take the necessary measures to become the holder of a number of Subject Voting Rights in a Stock Company-Operated Financial Instruments Exchange which is less than the Threshold Holding Ratio, within three months from the day that the authorization is rescinded.
- (3) Irrespective of the category of proceeding for hearing statements of opinions under Article 13, paragraph (1) of the Administrative Procedure Act, before seeking to order the necessary measures under the provisions of paragraph (1), the Prime Minister must conduct a hearing.
- (4) The provisions of paragraph (1) and the preceding paragraph apply mutatis mutandis to an Authorized Financial Instruments Business Association, Financial Instruments Exchange, Financial Instruments Exchange Holding Company, Commodity Exchange, or Commodity Exchange Holding Company that holds a number of Subject Voting Rights in a Stock Company-Operated Financial Instruments Exchange which is equal to or greater than the Threshold Holding Ratio.

(Lapse of Authorization)

- Article 106-8 (1) If the major shareholder of a Stock Company-Operated Financial Instruments Exchange comes to fall under one of the following items, the Article 106-3, paragraph (1) authorization ceases to be effective:
- (i) the major shareholder fails to become the holder of a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio within six months from the date on which it obtains the authorization;
  - (ii) the major shareholder becomes the holder of a number of Subject Voting Rights that is less than the Threshold Holding Ratio; or
  - (iii) the major shareholder becomes a Financial Instruments Exchange, Financial Instruments Exchange Holding Company, Commodity Exchange, or Commodity Exchange Holding Company.
- (2) If an authorization ceases to be effective pursuant to the provisions of the preceding paragraph (in a case to which item (iii) of that paragraph pertains, this is only if the major shareholder becomes a Commodity Exchange or Commodity Exchange Holding Company), the person that was formerly a major shareholder must notify the Prime Minister of this without delay.

(Mutatis Mutandis Application of Provisions on Subject Voting Rights)  
Article 106-9 The provisions of Article 103-2, paragraph (5) apply mutatis mutandis if the provisions of Article 106-3, paragraphs (1) to (5) inclusive; Article 106-4, paragraph (1); Article 106-6, paragraph (2); Article 106-7, paragraphs (2) and (4); and paragraph (1) of the preceding Article are applicable.

#### **Division 4 Financial Instruments Exchange Holding Companies**

(Authorization)

Article 106-10 (1) A person seeking to have a Stock Company-Operated Financial Instruments Exchange as its Subsidiary Company, or a person seeking to incorporate as a company that has a Stock Company-Operated Financial Instruments Exchange as its Subsidiary Company must obtain the authorization of the Prime Minister in advance to do so; provided, however that this does not apply if an Authorized Financial Instruments Business Association, Financial Instruments Exchange, Commodity Exchange, or Commodity Exchange Holding Company has a Stock Company-Operated Financial Instruments Exchange as its Subsidiary Company.

(2) If the number of Subject Voting Rights that the person holds does not increase or if the case is otherwise specified by Cabinet Office Ordinance, and the person will come to have a Stock Company-Operated Financial Instruments Exchange as its Subsidiary Company, the provisions of the main clause of the preceding paragraph do not apply.

(3) In the case prescribed in the preceding paragraph, a company that comes to have a Stock Company-Operated Financial Instruments Exchange as its Subsidiary Company (hereinafter referred to as a "Specified Holding Company" in this Article) must take the necessary measures for it to cease to be a company that has a Stock Company-Operated Financial Instruments Exchange as its Subsidiary Company, within three months from the day on which the company becomes a Specified Holding Company; provided, however, that this does not apply if the Specified Holding Company obtains the authorization of the Prime Minister as a company that has a Stock Company-Operated Financial Instruments Exchange as its Subsidiary Company.

(4) The provisions of Article 106-3, paragraphs (3) and (5) apply mutatis mutandis to a Specified Holding Company. In this case, in paragraph (3) of that Article, the phrase "the preceding paragraph" is deemed to be replaced with "Article 106-10, paragraph (2)"; and in Article 106-3, paragraph (5), the phrase "the preceding paragraph" is deemed to be replaced with "Article 106-10, paragraph (3)" and the phrase "becomes the holder of a number of Subject Voting Rights that constitutes 50 percent or less of all shareholders' voting

rights in a Stock Company-Operated Financial Instruments Exchange" is deemed to be replaced with "ceases to be a company that has a Stock Company-Operated Financial Instruments Exchange as its Subsidiary Company".

(5) The provisions of Article 30-2 apply mutatis mutandis to the authorization referred to in paragraph (1) or in the proviso to paragraph (3).

(Application for Authorization)

Article 106-11 (1) A person seeking the authorization referred to in paragraph (1) or in the proviso to paragraph (3) of the preceding Article must submit a written application for authorization to the Prime Minister, in which it states the following particulars:

(i) its trade name;

(ii) the amount of stated capital;

(iii) the names of its directors and company auditors (or, for a company with committees, its directors and executive officers);

(iv) for a company with accounting advisors, the names of its accounting advisors; and

(v) the names and locations of its head office and other business offices.

(2) The articles of incorporation and other documents specified by Cabinet Office Ordinance must accompany the written application for authorization referred to in the preceding paragraph.

(3) The provisions of Article 81, paragraph (3) apply mutatis mutandis to the articles of incorporation referred to in the preceding paragraph.

(Examination Criteria for Authorization)

Article 106-12 (1) Whenever an application for authorization under the provisions of paragraph (1) of the preceding Article is filed, the Prime Minister shall examine whether the application conforms to the following criteria:

(i) the applicant for authorization or the company that would be incorporated after obtaining authorization (hereinafter collectively referred to as the "Applicant for Authorization, etc." in this Article) is a person whose sole purpose is to have a Stock Company-Operated Financial Instruments Exchange, a Stock Company-Operated Financial Instruments Exchange, or one of the following companies, as its Subsidiary Company:

(a) a company engaged in business incidental to the operation of a Financial Instruments Exchange Market;

(b) a company engaged in business that is linked to the operation of a Financial Instruments Exchange Market;

(c) a company engaged in the Operation of a Commodity Market; or

(d) a company engaged in business that is linked to the operation of the necessary market for effecting Commodity Futures Transactions.

- (ii) the Applicant for Authorization, etc. and the Stock Company-Operated Financial Instruments Exchange that would become its Subsidiary Company have good prospects in terms of income and expenditures;
  - (iii) in light of its personnel structure, the Applicant for Authorization, etc. has the knowledge and experience to perform the business administration of the Stock Company-Operated Financial Instruments Exchange that would become its Subsidiary Company, in an appropriate and fair manner; and
  - (iv) the applicant for authorization has sufficient social credibility.
- (2) If, as a result of having conducted an examination pursuant to the provisions of the preceding paragraph, the Prime Minister finds that an application conforms to the criteria in that paragraph, the Prime Minister shall grant authorization, except in a case that falls under one of the following items:
- (i) the Applicant for Authorization, etc. is not a stock company (meaning a stock company that has in place the following organs):
    - (a) a board of directors; and
    - (b) a company auditor or committees.
  - (ii) the applicant for authorization is a person that has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of this Act or for violating the provisions of a foreign law or regulation that is equivalent to this Act, and five years have not yet passed since the day on which the person finished serving the sentence or ceased to be subject to its enforcement;
  - (iii) the applicant for authorization is a person that has had its license rescinded pursuant to the provisions of Article 148, Article 152, paragraph (1), Article 156-17, paragraph (1) or (2), Article 148 as applied mutatis mutandis under Article 156-26, or Article 156-32, paragraph (1); has had its registration rescinded pursuant to the provisions of Article 52, paragraph (1), Article 53, paragraph (3), Article 57-6, paragraph (3), Article 66-20, paragraph (1), or Article 66-42, paragraph (1); has had its authorization rescinded pursuant to the provisions of Article 106-7, paragraph (1), Article 106-21, paragraph (1), Article 106-28, paragraph (1), or Article 156-5-9, paragraph (1); or is a person that had obtained a license or registration of the same kind in a foreign state pursuant to the provisions of a foreign law or regulation that is equivalent to this Act (including permission or any other administrative disposition similar to such a license or registration), but that has had that license or registration rescinded; and five years have not yet passed since the date of the rescission;
  - (iv) the Applicant for Authorization, etc. has a person falling under one of the categories in Article 82, paragraph (2), item (iii), sub-items (a) to (f) inclusive as an officer; or
  - (v) the application for authorization or a document or electronic or magnetic

record that is required to accompany it contains a false statement or false record about a material particular.

(Mutatis Mutandis Application of Provisions on Refusal of Authorization)

Article 106-13 The provisions of Article 85-4 apply mutatis mutandis to the authorization referred to in paragraph (1) and in the proviso to paragraph (3) of Article 106-10.

(Limitation on the Holding of Voting Rights)

- Article 106-14 (1) It is prohibited for any person to acquire or hold a number of Subject Voting Rights in a Financial Instruments Exchange Holding Company which is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights; provided, however, that this does not apply if an Authorized Financial Instruments Business Association, Financial Instruments Exchange, or Commodity Exchange acquires or holds Subject Voting Rights.
- (2) If the number of Subject Voting Rights that the person holds does not increase or in any other case specified by Cabinet Office Ordinance, the provisions of the main clause of the preceding paragraph do not apply to a person acquiring or holding a number of Subject Voting Rights in a Financial Instruments Exchange Holding Company which is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights.
- (3) In the case referred to in the preceding paragraph, a person that comes to acquire or hold a number of Subject Voting Rights in a Financial Instruments Exchange Holding Company which is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights (hereinafter referred to as a "Specified Holder" in this Article) must notify the Prime Minister without delay that it has become a Specified Holder and of the matters specified by Cabinet Office Ordinance.
- (4) In the case referred to in paragraph (2), a Specified Holder must take the necessary measures to become the holder of a number of Subject Voting Rights in a Financial Instruments Exchange Holding Company which is less than the Threshold Holding Ratio, within three months from the day on which that person becomes a Specified Holder; provided, however, that this does not apply if the Specified Holder is a Local Government, etc. and the Local Government, etc. obtains the authorization of the Prime Minister pursuant to the provisions of Article 106-17, paragraph (1).
- (5) Necessary particulars relevant to the application of the provisions of each of the preceding paragraphs are specified by Cabinet Order.

(Submission of a Statement of Holdings in Subject Voting Rights)

Article 106-15 A person that becomes the holder of Subject Voting Rights

exceeding five percent of all shareholders' voting rights in a Financial Instruments Exchange Holding Company (hereinafter referred to as the "Holder of Subject Voting Rights" in this Article) must submit a statement of holdings in Subject Voting Rights to the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance and without delay, in which that person states the Subject Voting Rights holding ratio (meaning the ratio arrived at by dividing the number of Subject Voting Rights that the Holder of Subject Voting Rights holds by the number that represents all shareholders' voting rights in the Financial Instruments Exchange Holding Company), the purpose for which they are held, and the matters specified by Cabinet Office Ordinance.

(Collection of Reports and Inspection of a Person Submitting a Statement of Holdings in Subject Voting Rights)

Article 106-16 If the Prime Minister suspects that a statement of holdings in Subject Voting Rights as referred to in the preceding Article contains a false statement or omits a statement as to a particular that is required to be stated, the Prime Minister may order the person submitting the statement of holdings in Subject Voting Rights to submit reports or materials that should serve as a reference, or may have the relevant officials inspect the documents and other articles of that person (but only as is necessary in connection with what is stated in the statement of holdings in Subject Voting Rights).

(Authorization as a Major Shareholder)

Article 106-17 (1) Notwithstanding the provisions of Article 106-14, paragraph (1), with the authorization of the Prime Minister, a Local Government, etc. may acquire or hold a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio, but no greater than 50 percent, of all shareholders' voting rights in a Financial Instruments Exchange Holding Company, pursuant to the provisions of Cabinet Office Ordinance.

(2) Notwithstanding the provisions of the preceding paragraph and Article 106-14, paragraph (1), if the number of Subject Voting Rights that it holds does not increase or in any other case specified by Cabinet Office Ordinance, a Local Government, etc. that has obtained the authorization under the preceding paragraph may acquire or hold Subject Voting Rights exceeding 50 percent of all shareholders' voting rights in a Financial Instruments Exchange Holding Company.

(3) In the case referred to in the preceding paragraph, a Local Government, etc. that comes to acquire or hold Subject Voting Rights exceeding 50 percent of all shareholders' voting rights in a Financial Instruments Exchange Holding Company (hereinafter referred to as a "Specified Holding Entity, etc." in this Article) must take the necessary measures for it to become the holder of a

number of Subject Voting Rights which constitutes 50 percent or less of all shareholders' voting rights in the Financial Instruments Exchange Holding Company, within three months from the day on which it becomes a Specified Holding Entity, etc.

- (4) The provisions of Article 106-3, paragraphs (3) and (5) apply mutatis mutandis to a Specified Holding Entity, etc. In this case, in paragraph (3) of that Article, the phrase "the preceding paragraph" is deemed to be replaced with "Article 106-17, paragraph (2)", and in Article 106-3, paragraph (5), the phrase "the preceding paragraph" is deemed to be replaced with "Article 106-17, paragraph (3)".
- (5) The provisions of Article 30-2 apply mutatis mutandis to the authorization referred to in paragraph (1).

(Criteria for Authorization as a Major Shareholder)

Article 106-18 (1) Whenever an application is filed for the authorization referred to in paragraph (1) of the preceding Article, the Prime Minister shall examine whether the application conforms to the following criteria:

- (i) the applicant for authorization's exercise of the Subject Voting Rights is not likely to impair the sound and appropriate operation of the business of a Stock Company-Operated Financial Instruments Exchange that is the Subsidiary Company of the Financial Instruments Exchange Holding Company; and
- (ii) the applicant for authorization has a sufficient understanding of the public nature of the business of a Financial Instruments Exchange.
- (2) The provisions of Article 82, paragraph (2) apply mutatis mutandis to the authorization referred to in paragraph (1) of the preceding Article. In this case, in Article 82, paragraph (2), the phrase "the preceding paragraph" is deemed to be replaced with "Article 106-18, paragraph (1)", the phrase ", Article 156-17, paragraph (1) or (2)" is deemed to be replaced with ", Article 156-17, paragraph (1) or (2); Article 156-20-14, paragraph (1) or (2)", and the phrase ", Article 106-28, paragraph (1)" is deemed to be replaced with ", Article 106-28, paragraph (1); Article 155-6; Article 155-10, paragraph (1)"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(Mutatis Mutandis Application of Provisions on Refusal of Authorization)

Article 106-19 The provisions of Article 85-4 apply mutatis mutandis to the authorization referred to in Article 106-17, paragraph (1).

(Collection of Reports and Inspection of a Major Shareholder)

Article 106-20 (1) If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may

order the major shareholder of a Financial Instruments Exchange Holding Company (meaning a person that has obtained the authorization referred to in Article 106-17, paragraph (1); hereinafter the same applies in this Division) to submit reports or materials of reference in connection with the business or assets of the Financial Instruments Exchange Holding Company or a Stock Company-Operated Financial Instruments Exchange that is its Subsidiary Company, or may have the relevant officials inspect the documents and other articles of such a major shareholder (but only as is necessary in connection with the business or assets of the Financial Instruments Exchange Holding Company or a Stock Company-Operated Financial Instruments Exchange that is its Subsidiary Company).

- (2) The provisions of the preceding paragraph apply mutatis mutandis to a Commodity Exchange that holds a number of Subject Voting Rights in a Stock Company-Operated Financial Instruments Exchange which is equal to or greater than the Threshold Holding Ratio.

(Supervisory Measures for Major Shareholders)

Article 106-21 (1) If the major shareholder of a Financial Instruments Exchange Holding Company violates a law or regulation, or if it is found that the conduct of a major shareholder is likely to impair the sound and appropriate operation of the business of a Stock Company-Operated Financial Instruments Exchange that is a Subsidiary Company of such a Financial Instruments Exchange Holding Company, the Prime Minister may rescind the major shareholder's Article 106-17, paragraph (1) authorization, or order the major shareholder to take measures that are necessary from a supervisory perspective.

- (2) A person that has its Article 106-17, paragraph (1) authorization rescinded pursuant to the provisions of the preceding paragraph must take the necessary measures to become the holder of a number of Subject Voting Rights in a Financial Instruments Exchange Holding Company which is less than the Threshold Holding Ratio, within three months from the day on which the authorization is rescinded.
- (3) Irrespective of the category of proceeding for hearing statements of opinions under Article 13, paragraph (1) of the Administrative Procedure Act, before seeking to order the necessary measures under the provisions of paragraph (1), the Prime Minister must conduct a hearing.
- (4) The provisions of paragraph (1) and the preceding paragraph apply mutatis mutandis to an Authorized Financial Instruments Business Association, Financial Instruments Exchange, or Commodity Exchange that holds a number of Subject Voting Rights in a Financial Instruments Exchange Holding Company which is equal to or greater than the Threshold Holding Ratio.

(Lapse of Authorization as a Major Shareholder)

- Article 106-22 (1) If the major shareholder of a Financial Instruments Exchange Holding Company comes to fall under one of the following items, the authorization referred to in Article 106-17, paragraph (1) ceases to be effective:
- (i) the major shareholder fails to become the holder of a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio within six months from the date on which the major shareholder obtains the authorization;
  - (ii) the major shareholder becomes the holder of a number of Subject Voting Rights that is less than the Threshold Holding Ratio; or
  - (iii) the major shareholder becomes a Financial Instruments Exchange or a Commodity Exchange.
- (2) If an authorization has ceased to be effective pursuant to the provisions of the preceding paragraph (in a case to which item (iii) of that paragraph pertains, this is only if the major shareholder becomes a Commodity Exchange), the person that was a major shareholder must notify the Prime Minister of this without delay.

(Scope of Business)

- Article 106-23 (1) A Financial Instruments Exchange Holding Company may not conduct any business other than the business administration of the Stock Company-Operated Financial Instruments Exchange or company set forth in Article 106-12, paragraph (1), item (i), sub-items (a) to (d) inclusive which is its Subsidiary Company, and other business incidental thereto.
- (2) In conducting its business, a Financial Instruments Exchange Holding Company shall endeavor to ensure the appropriate business administration of the Stock Company-Operated Financial Instruments Exchange that is its Subsidiary Company, so as not to impair confidence in the public nature or the sound and appropriate operation of the business of the Subsidiary Company.

(Scope of Subsidiary Companies)

- Article 106-24 (1) A Financial Instruments Exchange Holding Company must not have a company other than one that operates a Financial Instruments Exchange Market and performs other business incidental thereto as its Subsidiary Company; provided, however, that with the authorization of the Prime Minister, it may have a company set forth in Article 106-12, paragraph (1), item (i), sub-item (b) to (d) inclusive as its Subsidiary Company.
- (2) The provisions of Article 30-2 apply mutatis mutandis to the authorization referred to in the proviso to the preceding paragraph.

(Mutatis Mutandis Application of Provisions on Refusal of Authorization)

Article 106-25 The provisions of Article 85-4 apply mutatis mutandis to the authorization referred to in the proviso to paragraph (1) of the preceding Article.

(Rescission of Authorization)

Article 106-26 If a Financial Instruments Exchange Holding Company is discovered to have fallen under one of the categories in the items of Article 106-12, paragraph (2) at the time it obtained authorization, the Prime Minister may rescind its authorization.

(Collection of Reports and Inspections)

Article 106-27 Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a Financial Instruments Exchange Holding Company or its Subsidiary Company to submit reports or materials that should serve as a reference with regard to the business or assets of the Financial Instruments Exchange Holding Company, and may have the relevant officials inspect the state of the business or assets, or the books and documents or any other articles, of a Financial Instruments Exchange Holding Company or its Subsidiary Company (but may only have the relevant officials inspect such a Subsidiary Company as is necessary in connection with the business or assets of the Financial Instruments Exchange Holding Company).

(Supervisory Measures)

Article 106-28 (1) If a Financial Instruments Exchange Holding Company violates a law or regulation, or if the Prime Minister finds it to be necessary, in light of the state of the business of a Financial Instruments Exchange Holding Company, for ensuring confidence in the public nature of the business of a Stock Company-Operated Financial Instruments Exchange that is its Subsidiary Company and to ensure the sound and appropriate operation of that business, the Prime Minister may rescind the Financial Instruments Exchange Holding Company's Article 106-10, paragraph (1) authorization or the authorization referred to in the proviso to paragraph (3) of that Article or the proviso to Article 106-24, paragraph (1), or may order the Financial Instruments Exchange Holding Company to take measures that are necessary from a supervisory perspective.

(2) If the director, accounting advisor, company auditor, or executive officer of a Financial Instruments Exchange Holding Company violates a law or regulation or a disposition by a government agency which is based on a law or regulation, the Prime Minister may order the Financial Instruments Exchange Holding Company to dismiss that director, accounting advisor, company auditor, or

executive officer.

- (3) A Financial Instruments Exchange Holding Company that has the authorization referred to in Article 106-10, paragraph (1) or the proviso to paragraph (3) of that Article rescinded pursuant to the provisions of paragraph (1) must promptly take the necessary measures for it to cease to be a company that has a Stock Company-Operated Financial Instruments Exchange as its Subsidiary Company.
- (4) If the measures referred to the preceding paragraph are taken but the person that takes those measures remains the holder of a number of Subject Voting Rights in a Stock Company-Operated Financial Instruments Exchange which is equal to or greater than the Threshold Holding Ratio, the date on which the company ceases to be a person that has the Stock Company-Operated Financial Instruments Exchange as its Subsidiary Company is deemed to be the date on which the person becomes a Specified Holder as referred to in that paragraph, and the provisions of Article 103-2, paragraph (4) apply.
- (5) Irrespective of the category of proceeding for hearing statements of opinions under Article 13, paragraph (1) of the Administrative Procedure Act, before seeking to order the necessary measures pursuant to the provisions of paragraph (1), the Prime Minister must conduct a hearing.

(Lapse of Authorization)

Article 107 (1) If a Financial Instruments Exchange Holding Company comes to fall under one of the following items, Article 106-10, paragraph (1) authorization or the authorization referred to in the proviso to paragraph (3) of that Article ceases to be effective:

- (i) it ceases to be a company that has a Stock Company-Operated Financial Instruments Exchange as its Subsidiary Company (excluding the cases that are specified by Cabinet Office Ordinance in consideration of the manner in which voting rights are held in the Stock Company-Operated Financial Instruments Exchange, or any other relevant circumstances);
  - (ii) it is dissolved;
  - (iii) a judgment invalidating its incorporation or a merger (but only if the company incorporated in the merger is a Financial Instrument Exchange Holding Company) or incorporation-type split (but only if the company incorporated in the incorporation-type split is a Financial Instrument Exchange Holding Company) becomes final and binding;
  - (iv) it fails to become a company that has a Stock Company-Operated Financial Instruments Exchange as its Subsidiary Company within six months from the date on which authorization is obtained; or
  - (v) it becomes a Financial Instruments Exchange or a Commodity Exchange.
- (2) If an authorization has ceased to be effective pursuant to the provisions of the

preceding paragraph (in a case to which item (v) of that paragraph pertains, this is only if the Financial Instruments Exchange Holding Company becomes a Commodity Exchange), the person that was the Financial Instruments Exchange Holding Company must notify the Prime Minister of this without delay.

(Mutatis Mutandis Application of Provisions on Subject Voting Rights)

Article 108 The provisions of Article 103-2, paragraph (5) apply mutatis mutandis if Article 106-14; Article 106-15; Article 106-17, paragraphs (1) to (3) inclusive; Article 106-3, paragraphs (3) and (5) as applied mutatis mutandis pursuant to Article 106-17, paragraph (4); Article 106-18, paragraph (1); Article 106-20, paragraph (2); Article 106-21, paragraphs (2) and (4); Article 106-22, paragraph (1); and Article 106-28, paragraph (4) are applicable.

(Mutatis Mutandis Application of Provisions on Supervisory Measures)

Article 109 The provisions of Article 106-23, paragraph (2) and Article 106-28, paragraphs (1) and (5) apply mutatis mutandis to an Authorized Financial Instruments Business Association or Financial Instruments Exchange that has a Stock Company-Operated Financial Instruments Exchange as its Subsidiary Company and to an Authorized Financial Instruments Business Association or Financial Instruments Exchange that has a Financial Instruments Exchange Holding Company as its Subsidiary Company, and the provisions of Article 106-23, paragraph (2), Article 106-27, and Article 106-28, paragraphs (1) and (5) apply mutatis mutandis to a parent Commodity Exchange, etc. or Commodity Exchange that has a Financial Instruments Exchange Holding Company as its Subsidiary Company.

### **Section 3 The Purchase and Sales of Securities, etc. on a Financial Instruments Exchange Market**

(Purpose of Operation)

Article 110 A Financial Instruments Exchange Market must be operated so as to ensure fair and smooth purchase and sales of Securities and Market Transactions of Derivatives, as well as to contribute to the protection of investors.

(Persons Allowed to Conduct Financial Instruments Transactions on a Financial Instruments Exchange)

Article 111 (1) Only the Member, etc. of a Financial Instruments Exchange that operates a Financial Instruments Exchange Market may make a purchase and sale of Securities or a Market Transaction of Derivatives on that Financial

Instruments Exchange Market.

- (2) The provisions of the preceding paragraph do not apply if a Member, etc. referred to in that paragraph entrusts a Clearing Member provided for in Article 156-7, paragraph (2), item (iii) with Brokerage for the Clearing of Securities, etc., and the Clearing Member conducts a transaction provided by Cabinet Office Ordinance.

(Trading Participants in an Incorporated Association-Operated Financial Instruments Exchange)

Article 112 (1) An Incorporated Association-Operated Financial Instruments Exchange, in accordance with the articles of incorporation, may grant a person set forth in one of the following (limited to a persons that is not a member) a trading license for engaging in the purchase and sale of Securities and conducting Market Transactions of Derivatives on the Financial Instruments Exchange Market that the Incorporated Association-Operated Financial Instruments Exchange operates (of a person as set forth in item (ii), this is limited to transactions involving the services of a registered financial institution):

- (i) a Financial Services Provider or Authorized Operator for On-Exchange Transactions; and
- (ii) a registered financial institution.

- (2) The provisions of Articles 94 and 95 apply mutatis mutandis to a persons that is granted a trading license pursuant to the provisions of the preceding paragraph. In this case, in Article 94, the term "Financial Instruments Incorporated Association" is deemed to be replaced with "Incorporated Association-Operated Financial Instruments Exchange" and the term "withdraw" is deemed to be replaced with "forfeit its trading license"; in Article 95, the term "withdraw" is deemed to be replaced with "forfeit its trading license"; in Article 95, item (i), the term "Financial Services Provider, etc." is deemed to be replaced with "person set forth in one of the items of Article 112, paragraph (1)"; and in Article 95, item (iii), the term "expulsion" is deemed to be replaced with "rescission of its trading license".

(Trading Participants in a Stock Company-Operated Financial Instruments Exchange)

Article 113 (1) A Stock Company-Operated Financial Instruments Exchange, in accordance with the operational rules, may grant a person set forth in one of the following a trading license for engaging in the purchase and sale of Securities and Market Transactions of Derivatives on the Financial Instruments Exchange Market operated by that Stock Company-Operated Financial Instruments Exchange (for a person as set forth in item (ii), this is

limited to transactions involving the services of a registered financial institution):

- (i) a Financial Services Provider or Authorized Operator for On-Exchange Transactions; and
  - (ii) a registered financial institution.
- (2) The provisions of Articles 94 and 95 apply mutatis mutandis to a person that is granted a trading license pursuant to the provisions of the preceding paragraph. In this case, in Article 94, the term "articles of incorporation" is deemed to be replaced with "operational rules", the term "Financial Instruments Incorporated Association" is deemed to be replaced with "Stock Company-Operated Financial Instruments Exchange", and the term "withdraw" is deemed to be replaced with "forfeit its trading license"; in Article 95 the term "withdraw" is deemed to be replaced with "forfeit its trading license"; in Article 95, item (i), the term "Financial Instruments Transaction Services Provider, etc." is deemed to be replaced with "person set forth in one of the items of Article 113, paragraph (1)"; and in Article 95, item (iii), the term "expulsion" is deemed to be replaced with "rescission of its trading license".

(Guarantee Funds)

- Article 114 (1) A Member, etc. shall deposit guarantee funds with a Financial Instruments Exchange, in accordance with the articles of incorporation (or the operational rules, if this is a Stock Company-Operated Financial Instruments Exchange; hereinafter the same applies in the following paragraph and paragraph (3) of this Article, paragraph (1) of the following Article (including as applied mutatis mutandis pursuant to Article 119, paragraph (6)), Article 116, paragraph (1) (including as applied mutatis mutandis pursuant to Article 132), and Article 119, paragraph (1)).
- (2) Securities may serve as guarantee funds, pursuant to the provisions of the articles of incorporation.
  - (3) A Financial Instruments Exchange must specify how guarantee funds are managed in its articles of incorporation.
  - (4) A person that entrusts a Member, etc. with the purchase and sale of Securities or a Market Transaction of Derivatives on a Financial Instruments Exchange Market has the right to receive payment of a claim arising due to that entrustment out of the guarantee funds of that Member, etc., in preference over other creditors.

(Damages Due to Default)

- Article 115 (1) If a Member, etc. causes damage to another Member, etc. or to the Financial Instruments Exchange or Financial Instruments Clearing Organization (limited to one specified in the articles of incorporation of the

Financial Instruments Exchange) due to a default on an obligation arising from a purchase and sale of Securities or a Market Transaction of Derivatives on the Financial Instruments Exchange Market, the Member, etc., Financial Instruments Exchange, or Financial Instruments Clearing Organization that incurs the damage has the right to receive payment out of the guarantee funds of the Member, etc. that causes that damage, in preference over other creditors.

- (2) The right of priority of a person that entrusts a person with a purchase and sale of Securities or a Market Transaction of Derivatives on a Financial Instruments Exchange Market under paragraph (4) of the preceding Article prevails over the right of priority under the preceding paragraph.

(Completion of Transactions Incidental to the Forfeiture of a Trading License)

Article 116 (1) If a Member, etc. withdraws from a Financial Instruments Exchange (or if a Trading Participant forfeits its trading license), the Financial Instruments Exchange, in accordance with the articles of incorporation, must have the former Member, etc., its general successor, or another Member, etc. complete the purchase and sales of Securities and Market Transactions of Derivatives being conducted by the former Member, etc. on the Financial Instruments Exchange Market. In such a case, the former Member, etc. or its general successor is deemed to still be a Member, etc. inasmuch as the task of completing such transactions is concerned.

- (2) If a Financial Instruments Exchange has another Member, etc. complete the transactions prescribed in the preceding paragraph pursuant to the provisions of that paragraph, a contract of mandate is deemed to have been established between the former Member, etc. or its general successor, and that other Member, etc.

(Particulars for Inclusion in the Operational Rules)

Article 117 A Financial Instruments Exchange must establish detailed regulations in respect of the following matters in connection with the Financial Instruments Exchange Markets it operates, for each of its Financial Instruments Exchange Markets (excluding items (i) and (ii), if it is an Incorporated Association-Operated Financial Instruments Exchange), in its operational rules:

- (i) the particulars of its Trading Participants;
- (ii) the particulars of guarantee funds;
- (iii) the particulars of clearing margins;
- (iv) the standards and methods for the listing and delisting of Securities subject to purchase and sales of Securities;
- (v) the type and period of purchase and sales of Securities or Market Transactions of Derivatives;

- (vi) the starting, ending, and suspension of purchase and sales of Securities or Market Transactions of Derivatives;
- (vii) the process for concluding a contract for the purchase and sale of Securities or a Market Transaction of Derivatives;
- (viii) delivery and other means of settlement for purchase and sales of Securities or Market Transactions of Derivatives; and
- (ix) necessary particulars relevant to the purchase and sale of Securities or Market Transactions of Derivatives, other than the particulars set forth in the preceding items.

(Specified Financial Instruments Exchange Markets)

Article 117-2 (1) For each Financial Instruments Exchange Market that a Financial Instruments Exchange operates, the Financial Instruments Exchange may prohibit Members, etc. from making purchases of Securities with which it has been entrusted by a person other than a Professional Investor, etc. (excluding the Issuer of the Securities or a person specified by Cabinet Office Ordinance) (such a purchase is referred to as a "Purchase for a General Investor" in the following paragraph), as prescribed by its operational rules.

(2) If a Financial Instruments Exchange prohibits Purchases for General Investors pursuant to the provisions of the preceding paragraph, in addition to the matters set forth in the items of the preceding Article, it must make provisions in its operational rules for the following matters in connection with its Specified Financial Instruments Exchange Markets:

- (i) the particulars of limitations imposed on Members', etc. acceptance of requests to entrust them with the sale and purchase of Securities; and
- (ii) the contents, and the means of provision or timing for the disclosure of the Specified Information on Securities and Information on the Issuer that an Issuer of Specified Listed Securities is required to provide or disclose, and necessary particulars otherwise relevant to the provision or disclosure of information on Specified Listed Securities.

(Standardized Instruments)

Article 118 (1) A Financial Instruments Exchange may use a standardized instrument as set forth in Article 2, paragraph (24), item (v) for Market Transactions of Derivatives, in accordance with the articles of incorporation.

(2) In the case referred to in the preceding paragraph, the Financial Instruments Exchange must make provisions in its operational rules for the conditions of the standardized instrument and necessary particulars otherwise relevant to transactions in standardized instruments.

(The Depositing of Clearing Margin)

Article 119 (1) A Financial Instruments Exchange (or, if it is specified in the articles of incorporation that the Financial Instruments Exchange will have another Financial Instruments Clearing Organization perform Financial Instruments Debt Assumption Service with regard to the whole or part of the Market Transactions of Derivatives on its Financial Instruments Exchange Markets (excluding those designated by the Prime Minister; hereinafter the same applies in this Article), the Financial Instruments Clearing Organization that performs Financial Instruments Debt Assumption Services for Market Transactions of Derivatives; the same applies in paragraph (4)), pursuant to the provisions of Cabinet Office Ordinance, must receive a deposit of clearing margin for a Market Transaction of Derivatives from the person specified in the relevant of the following items for the category of cases set forth in that item:

- (i) a Member, etc. conducts a Market Transaction of Derivatives on its own account; or a Member, etc. conducts a Market Transaction of Derivatives with which it has been entrusted, after receiving a deposit of customer margin based on the provisions of paragraph (3): the Member, etc.;
  - (ii) a Member, etc. conducts a Market Transaction of Derivatives with which it has been entrusted (excluding a Market Transaction of Derivatives with which the Member, etc. has been entrusted by a person that has undertaken brokerage (hereinafter referred to as a "Broker" in this Article) for entrusting a Market Transaction of Derivatives to that Member, etc. (hereinafter referred to as a "Brokered Market Transaction of Derivatives" in this Article; hereinafter the same applies in this item) (other than in a case specified in the preceding item): the person entrusting the Market Transaction of Derivatives (meaning the person that entrusts a Member, etc. with a Market Transaction of Derivatives, which is not a Broker; hereinafter the same applies in paragraph (3));
  - (iii) a Member, etc. conducts a Brokered Market Transaction of Derivatives with which it has been entrusted by a Broker that has received a deposit of brokerage margin based on the provisions of the following paragraph (other than in a case specified in item (i)): the Broker; or
  - (iv) a Member, etc. conducts a Brokered Market Transaction of Derivatives (other than in a case specified in item (i) or the preceding item): the person that requested the Broker to broker the entrustment of the Brokered Market Transaction of Derivatives (hereinafter referred to as the "Applicant" in this Article).
- (2) Pursuant to the provisions of Cabinet Office Ordinance, a Broker may have an Applicant deposit a brokerage margin with the Broker for undertaking to broker the entrustment of a Market Transaction of Derivatives.

- (3) Pursuant to the provisions of Cabinet Office Ordinance, a Member, etc. may have the person entrusting a Derivatives Transaction or the Broker (or the Applicant, if the Market Transaction of Derivatives falls under the category of a Brokered Market Transaction of Derivatives with which a Member, etc. is entrusted by a Broker that has not a deposit of brokerage margin from the Applicant based on the provisions of the preceding paragraph) deposit customer margin with the Member, etc. in connection with its becoming entrusted with a Market Transaction of Derivatives.
- (4) A Financial Instruments Exchange must manage the clearing margin that has been deposited with it based on the provisions of paragraph (1) pursuant to the provisions of Cabinet Office Ordinance.
- (5) Securities and other instruments prescribed by Cabinet Office Ordinance may serve as the clearing margin referred to in paragraph (1), brokerage margin referred to in paragraph (2), and customer margin referred to in paragraph (3), pursuant to the provisions of Cabinet Office Ordinance.
- (6) The provisions of Article 115, paragraph (1) apply mutatis mutandis to the clearing margin referred to in paragraph (1) (limited to that which is specified by Cabinet Office Ordinance). In this case, in Article 115, paragraph (1), the phrase "purchase and sale of Securities or Market Transaction of Derivatives" is deemed to be replaced with "Market Transaction of Derivatives".

(Notification of the Irregular or Temporary Start of an Exchange's Financial Instruments Transactions)

Article 120 If a Financial Instruments Exchange has irregularly or temporarily opened, closed, or suspended the purchase and sale of Securities or Market Transactions of Derivatives or cancelled such a suspension, it must notify the Prime Minister of this, for each Financial Instruments Exchange Market operated by the Financial Instruments Exchange, without delay.

(Notification of Listing)

Article 121 If a Financial Instruments Exchange seeks to list Securities for purchase and sale or to list Financial Instruments, etc. for Market Transactions of Derivatives, it must notify the Prime Minister of this for each Financial Instruments Exchange Market on which it seeks to list them.

(Approval of Listing)

Article 122 (1) If a Financial Instruments Exchange Holding Company seeks to list the Securities issued by the Financial Instruments Exchange for purchase and sale, or to list such Securities, Financial Indicators connected to them or Options on them for the purpose of Market Transactions of Derivatives, on a Financial Instruments Exchange Market or on a market specified by Cabinet

Order (other than a Financial Instruments Exchange Market operated by the relevant Financial Instruments Exchange, by a Financial Instruments Exchange that is the Subsidiary Company of the relevant Financial Instruments Exchange, by a Financial Instruments Exchange in which the relevant Financial Instruments Exchange holds a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights, by a Financial Instruments Exchange that is the Subsidiary Company of a person in which the relevant Financial Instruments Exchange holds a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights, or by a Financial Instruments Exchange that has the relevant Financial Instruments Exchange as its Subsidiary Company), it must obtain the approval of the Prime Minister for the listing, for each Financial Instruments Exchange Market or for each of the markets prescribed by Cabinet Order on which it seeks to list them; provided, however, that this does not apply if such listing is made based on an order under the provisions of Article 125.

- (2) If an application is filed for the approval referred to in the preceding paragraph and the Prime Minister finds that the listing to which the application pertains is likely to impair the sound and appropriate operation of the business of the Financial Instruments Exchange, or a Financial Instruments Exchange that is its Subsidiary Company, the Prime Minister must not grant the approval referred to in that paragraph.

(Mutatis Mutandis Application to Financial Instruments Exchange Holding Companies)

Article 123 (1) The provisions of the preceding Article apply mutatis mutandis to a Financial Instruments Exchange Holding Company. In this case, in Article 122, paragraph (1), the phrase "operated by the relevant Financial Instruments Exchange, by a Financial Instruments Exchange that is the Subsidiary Company of the relevant Financial Instruments Exchange, by a Financial Instruments Exchange in which the relevant Financial Instruments Exchange holds a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights, by a Financial Instruments Exchange that is the Subsidiary Company of a person in which the relevant Financial Instruments Exchange holds a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights, or by a Financial Instruments Exchange that has the relevant Financial Instruments Exchange as its Subsidiary Company" is deemed to be replaced with "operated by a Financial Instruments Exchange that is the Subsidiary Company of the Financial Instruments Exchange Holding Company, by a Financial Instruments Exchange in which the

Financial Instruments Exchange Holding Company holds a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights, by a Financial Instruments Exchange that is the Subsidiary Company of a person in which the Financial Instruments Exchange Holding Company holds a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights, or by a Financial Instruments Exchange that has the Financial Instruments Exchange Holding Company as its Subsidiary Company", and in Article 122, paragraph (2), the phrase "the Financial Instruments Exchange, or a Financial Instruments Exchange that is its Subsidiary Company" is deemed to be replaced with "a Financial Instruments Exchange that is its Subsidiary Company".

- (2) The provisions of the preceding Article apply mutatis mutandis to a parent Commodity Exchange, etc. In this case, in Article 122, paragraph (1), the phrase "operated by the relevant Financial Instruments Exchange, by a Financial Instruments Exchange that is the Subsidiary Company of the relevant Financial Instruments Exchange, by a Financial Instruments Exchange in which the relevant Financial Instruments Exchange holds a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights, by a Financial Instruments Exchange that is the Subsidiary Company of a person in which the relevant Financial Instruments Exchange holds a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights, or by a Financial Instruments Exchange that has the relevant Financial Instruments Exchange as its Subsidiary Company" is deemed to be replaced with "operated by a Financial Instruments Exchange that is the Subsidiary Company of the relevant parent Commodity Exchange, etc., by a Financial Instruments Exchange in which the relevant parent Commodity Exchange, etc. holds a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights, by a Financial Instruments Exchange that is the Subsidiary Company of a person in which the relevant Parent Commodity Exchange, etc. holds a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights, or by a Financial Instruments Exchange that has the relevant parent Commodity Exchange, etc. as its Subsidiary Company", and in Article 122, paragraph (2), the phrase "the Financial Instruments Exchange, or a Financial Instruments Exchange that is its Subsidiary Company" is deemed to be replaced with "the Financial Instruments Exchange that is a Subsidiary Company of the relevant Parent Commodity Exchange, etc."

(Approval of a Financial Instruments Exchange's Listing on a Financial Instruments Exchange Market It Operates)

Article 124 (1) Notwithstanding the provisions of Article 121, if a Financial Instruments Exchange seeks to list Securities issued by the following persons for purchase and sale on a Financial Instruments Exchange Market it operates, or to list such Securities, Financial Indicators connected to them, or Options on them for Market Transactions of Derivatives on a Financial Instruments Exchange Market it operates, it must obtain the approval of the Prime Minister for the listing, on each occasion and for each Financial Instruments Exchange Market on which it seeks to list them; provided, however, that this does not apply if such a listing is made based on an order under the provisions of the following Article:

- (i) the Financial Instruments Exchange in question;
  - (ii) a person that has the Financial Instruments Exchange as its Subsidiary Company;
  - (iii) a Stock Company-Operated Financial Instruments Exchange or Financial Instruments Exchange Holding Company that holds a number of Subject Voting Rights in a person set forth in one of the preceding two items which is equal to or greater than the Threshold Holding Right of all shareholders' voting rights (other than a person set forth in the preceding item);
  - (iv) a Stock Company-Operated Financial Instruments Exchange or Financial Instruments Exchange Holding Company that is a Subsidiary Company of the Financial Instruments Exchange;
  - (v) a parent Commodity Exchange, etc. that holds a number of Subject Voting Rights in a person set forth in item (i) or (ii) which is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights (other than a person set forth in item (ii)); or
  - (vi) a parent Commodity Exchange, etc. that is a Subsidiary Company of the Financial Instruments Exchange.
- (2) If an application is filed for the approval referred to in the preceding paragraph and the Prime Minister finds the application to fall under one of the following items, the Prime Minister must not grant the approval referred to in that paragraph:
- (i) the listing to which the application pertains is likely to impair the sound and appropriate operation of the business of one of the following Financial Instruments Exchanges:
    - (a) the Financial Instruments Exchange in question;
    - (b) a Financial Instruments Exchange that has the relevant Financial Instruments Exchange as its Subsidiary Company;
    - (c) a Stock Company-Operated Financial Instruments Exchange that holds a number of Subject Voting Rights in the relevant Financial Instruments

- Exchange (including a person that has the relevant Financial Instruments Exchange as its Subsidiary Company) which is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights (other than a person set forth in sub-item (b));
- (d) a Stock Company-Operated Financial Instruments Exchange that is a Subsidiary Company of the relevant Financial Instruments Exchange;
  - (e) a Stock Company-Operated Financial Instruments Exchange that is the Subsidiary Company of a person that has the relevant Financial Instruments Exchange as its Subsidiary Company (other than a person set forth in one of sub-items (a) to (d) inclusive); and
  - (f) a Stock Company-Operated Financial Instruments Exchange that is the Subsidiary Company of a person that holds a number of Subject Voting Rights in the relevant Financial Instruments Exchange (including a person that has the relevant Financial Instruments Exchange as its Subsidiary Company) which is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights (other than a person set forth in one of sub-items (a) to (e) inclusive).
- (ii) the fairness of transactions on the Financial Instruments Exchange Market is not ensured for the listing to which the application pertains.
- (3) Notwithstanding the provisions of Article 121, if a Financial Instruments Exchange seeks to list Securities issued by one of the following persons for purchase and sale on a Financial Instruments Exchange Market it operates, or to list such Securities, Financial Indicators connected to them, or Options on them for the purpose of Market Transactions of Derivatives on a Financial Instruments Exchange Market it operates, it must obtain the approval of the Prime Minister for the listing, for each occasion and for each Financial Instruments Exchange Market on which it seeks to list them; provided, however, that this does not apply if such a listing is made based on an order under the provisions of the following Article:
- (i) a person that holds a number of Subject Voting Rights in the Financial Instruments Exchange (including a person that has the Financial Instruments Exchange as its Subsidiary Company) which is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights (other than a person set forth in one of the items of paragraph (1)); or
  - (ii) a Subsidiary Company of the Financial Instruments Exchange (unless the Subsidiary Company is a Stock Company-Operated Financial Instruments Exchange, Financial Instruments Exchange Holding Company, or parent Commodity Exchange, etc.).
- (4) If an application is filed for the approval referred to in the preceding paragraph and the Prime Minister finds that the fairness of transactions on the Financial Instruments Exchange Market is not ensured for the listing to

which the application pertains, the Prime Minister must not grant the approval referred to in that paragraph..

(Order to List Share Certificates)

Article 125 If the Issuer of Share Certificates, etc. that a Financial Instruments Exchange lists issues Share Certificates, etc. that the Financial Instruments Exchange does not list, and the Prime Minister finds it to be necessary and proper in the public interest or for the protection of investors, the Prime Minister may order the Financial Instruments Exchange to list those Share Certificates, etc.

(Notification of Delisting)

Article 126 (1) If a Financial Instruments Exchange seeks to delist Securities listed for purchase and sale or Financial Instruments, etc. listed for Market Transactions of Derivatives, it must notify the Prime Minister of this, for each Financial Instruments Exchange Market from which it seeks to delist them.  
(2) Notwithstanding the provisions of the preceding paragraph, if a Financial Instruments Exchange lists Securities specified in Article 124, paragraph (1) for purchase and sale on a Financial Instruments Exchange Market it operates, or lists Securities, Financial Indicators, or Options under that paragraph for Market Transactions of Derivatives on a Financial Instruments Exchange Market it operates, and it seeks to delist those Securities, Financial Indicators, or Options, it must obtain the approval of the Prime Minister for the delisting, for each Financial Instruments Exchange Market from which it seeks to delist them; provided, however, that this does not apply if the delisting is made based on an order under Article 129, paragraph (1).

(Order to Delist)

Article 127 (1) If a Financial Instruments Exchange violates its operational rules in seeking to list or delist Financial Instruments, etc. or in listing or delisting them, the Prime Minister may order the Financial Instruments Exchange to delist the listed Financial Instruments, etc., to re-list the delisted Financial Instruments, etc., or to take the necessary measures to rectify the violation. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.  
(2) With regard to the application of the provisions of Chapter III, Section 2 of the Administrative Procedure Act if the notice referred to in Article 15, paragraph (1) of that Act is given at the hearing for a disposition under the provisions of the preceding paragraph, the Issuer of Securities that are among the Financial Instruments, etc. referred to in the preceding paragraph, is

deemed to be the person that receives the notice referred to in Article 15, paragraph (1) of that Act.

(Notification of Suspension of Purchase and Sales)

Article 128 If a Financial Instruments Exchange suspends or cancels the suspension of the purchase and sale of Securities or Market Transactions of Derivatives on a Financial Instruments Exchange Market it operates for Financial Instruments, etc. it lists, it must notify the Prime Minister of this without delay, for each Financial Instruments Exchange Market it operates.

(Order to Suspend Purchase and Sales)

Article 129 (1) If an Issuer of Securities that a Financial Instruments Exchange lists violates this Act, an order based on this Act, or the rules of the Financial Instruments Exchange that lists the Securities, and the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order the Financial Instruments Exchange to suspend the purchase and sale of those Securities on the Financial Instruments Exchange Market or to delist them. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.

(2) With regard to the application of the provisions of Chapter III, Section 2 of the Administrative Procedure Act if the notice referred to in Article 15, paragraph (1) of that Act is given at the hearing for a disposition under the provisions of the preceding paragraph, the Issuer provided for in the preceding paragraph is deemed to be the person that receives the notice referred to in Article 15, paragraph (1) of that Act.

(Notice of Total Transaction Volume, Price, etc.)

Article 130 Pursuant to the provisions of Cabinet Office Ordinance, a Financial Instruments Exchange must notify its Members, etc. of, and also disclose to the public, the daily total transaction volume on the Financial Instruments Exchange Markets it operates and the highest price, lowest price, closing price, Agreed Figure, amount receivable, and other particulars, for each day and for each issue of Financial Instruments, etc. it lists.

(Reporting of Total Transaction Volume, Price, etc.)

Article 131 Pursuant to the provisions of Cabinet Office Ordinance, a Financial Instruments Exchange must report to the Prime Minister the daily total transaction volume on the Financial Instruments Exchange Markets it operates and the highest price, lowest price, closing price, Agreed Figure,

amount receivable, and other particulars, for each day and for each issue of Financial Instruments, etc. it lists.

(Mutatis Mutandis Application of Provisions on the Completion of Transactions Incidental to the Forfeiture of a Trading License)

Article 132 The provisions of Article 116 apply mutatis mutandis if a Member's, etc. purchase and sales of Securities or Market Transactions of Derivatives on a Financial Instruments Exchange Market are suspended pursuant to the provisions of this Act or the articles of incorporation of the Financial Instruments Exchange.

(Brokerage Contract Rules and Particulars for Inclusion in Them)

Article 133 (1) A Member, etc. must comply with the brokerage contract rules prescribed by the Financial Instruments Exchange to which it belongs in becoming entrusted with the purchase and sale of Securities or Market Transactions of Derivatives on a Financial Instruments Exchange Market (excluding Brokerage for the Clearing of Securities, etc.) .

(2) A Financial Instruments Exchange must establish detailed regulations in respect of the following matters in connection with the Financial Instruments Exchange Markets it operates, for each of its Financial Instruments Exchange Markets, in its brokerage contract rules:

- (i) the conditions for becoming entrusted with the purchase and sale of Securities or Market Transactions of Derivatives;
- (ii) delivery and other means of settlement for purchase and sales of Securities or Market Transactions of Derivatives;
- (iii) the particulars of granting credit for becoming entrusted with the purchase and sale of Securities; and
- (iv) necessary particulars relevant to becoming entrusted with the purchase and sale of Securities or Market Transactions of Derivatives, other than the particulars set forth in the preceding three items.

(Mutatis Mutandis Application of Provisions on Subject Voting Rights)

Article 133-2 The provisions of Article 103-2, paragraph (5) apply mutatis mutandis if the provisions of Article 122, paragraph (1), Article 123 and Article 124, paragraphs (1) to (3) inclusive are applicable.

## **Section 4 Dissolution of a Financial Instruments Exchange**

### **Subsection 1 Dissolution**

(Lapse of License)

Article 134 (1) The license referred to in Article 80, paragraph (1) ceases to be

valid if a Financial Instruments Exchange falls under one of the following items:

- (i) the number of Trading Participants falls to five or below (but only if it is a Stock Company-Operated Financial Instruments Exchange);
  - (ii) it closes all of its Financial Instruments Exchange Markets;
  - (iii) it is dissolved;
  - (iv) a judgment invalidating its incorporation, merger (but only if the person incorporated in the merger is a Financial Instruments Exchange), or incorporation-type split (but only if the person incorporated in the incorporation-type split is that Financial Instruments Exchange) becomes final and binding; or
  - (v) it does not operate a Financial Instruments Exchange Market within six months from the date on which it obtains the license (unless there is any compelling reason and it has obtained the approval of the Prime Minister in advance).
- (2) If a license ceases to be valid pursuant to item (i) or (iv) of the preceding paragraph, the representative or the former representative of the Financial Instruments Exchange must notify the Prime Minister of this without delay.

(Authorization for Dissolution)

Article 135 (1) The following matters do not come become effective without the authorization of the Prime Minister:

- (i) a general meeting resolution to dissolve a Financial Instruments Exchange; and
  - (ii) a merger in which Financial Instruments Exchanges constitute all or part of the parties (excluding a merger under Article 140, paragraph (1)).
- (2) If a Financial Instruments Exchange is dissolved for one of the following reasons, its former representative must notify the Prime Minister of this without delay:
- (i) the occurrence of a cause of dissolution specified in the articles of incorporation;
  - (ii) the number of members falls to five or below; or
  - (iii) a judicial decision ordering dissolution.

## **Subsection 2 Merger**

### **Division 1 General Rules**

Article 136 (1) An Incorporated Association-Operated Financial Instruments Exchange may merge with another Incorporated Association-Operated Financial Instruments Exchange or with a Stock Company-Operated Financial Instruments Exchange. In such a case, the Financial Instruments Exchanges

effecting the merger must conclude a merger agreement.

(2) In the case referred to in the preceding paragraph, if an Incorporated Association-Operated Financial Instruments Exchange effects an absorption-type merger (meaning the merger of one Financial Instruments Exchange with another Financial Instruments Exchange, in which the Financial Instruments Exchange surviving the merger (hereinafter referred to as the "Financial Instruments Exchange Surviving an Absorption-Type Merger" in this Subsection) succeeds to all of the rights and obligations of the Financial Instruments Exchange that disappears in the merger (hereinafter referred to as a "Financial Instruments Exchange Disappearing in an Absorption-Type Merger" in this Subsection); the same applies hereinafter), or a consolidation-type merger (meaning a merger between two or more Financial Instruments Exchanges in which the Financial Instruments Exchange that is incorporated in the merger (hereinafter referred to as the "Financial Instruments Exchange Incorporated in a Consolidation-Type Merger" in this Subsection) succeeds to all of the rights and obligations of the Financial Instruments Exchanges that disappear as a result of the merger (hereinafter each is referred to as a "Financial Instruments Exchange Disappearing in a Consolidation-Type Merger" in this Subsection); the same applies hereinafter), the Financial Instruments Exchange Surviving the Absorption-Type Merger or the Financial Instruments Exchange Incorporated in the Consolidation-Type Merger must be the person specified in the relevant of the following items for the category of cases set forth in that item:

- (i) a merger between an Incorporated Association-Operated Financial Instruments Exchange and an Incorporated Association-Operated Financial Instruments Exchange : an Incorporated Association-Operated Financial Instruments Exchange; or
- (ii) a merger between an Incorporated Association-Operated Financial Instruments Exchange and a Stock Company-Operated Financial Instruments Exchange: a Stock Company-Operated Financial Instruments Exchange.

**Division 2 Mergers between an Incorporated Association-Operated  
Financial Instruments Exchange and an Incorporated Association-  
Operated Financial Instruments Exchange**

(Absorption-Type Merger Agreements between an Incorporated Association-Operated Financial Instruments Exchange and an Incorporated Association-Operated Financial Instruments Exchange)

Article 137 If an Incorporated Association-Operated Financial Instruments Exchange and an Incorporated Association-Operated Financial Instruments

Exchange effect an absorption-type merger, they must specify the following particulars in the absorption-type merger agreement:

- (i) the name and address of the Incorporated Association-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger (hereinafter referred to as the "Incorporated Association-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger" in this Subsection) and the name and address of the Incorporated Association-Operated Financial Instruments Exchange that will disappear in the absorption-type merger (hereinafter referred to as the "Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger" in this Subsection); and
- (ii) the day on which the absorption-type merger comes into effect (hereinafter referred to as the "Effective Date" in this Subsection) and other matters specified by Cabinet Office Ordinance.

(Consolidation-Type Merger Agreements between an Incorporated Association-Operated Financial Instruments Exchange and an Incorporated Association-Operated Financial Instruments Exchange)

Article 138 If an Incorporated Association-Operated Financial Instruments Exchange and an Incorporated Association-Operated Financial Instruments Exchange effect a consolidation-type merger, they must specify the following particulars in the consolidation-type merger agreement:

- (i) the names and addresses of the Incorporated Association-Operated Financial Instruments Exchange that will disappear in the consolidation-type merger (hereinafter each is referred to as an "Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger" in this Subsection);
- (ii) the purpose, name, and the location of the principal office of the Incorporated Association-Operated Financial Instruments Exchange that will be incorporated in the consolidation-type merger (hereinafter referred to as the "Incorporated Association-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger" in this Subsection);
- (iii) beyond what is set forth in the preceding item, the matters specified by the articles of incorporation of the Incorporated Association-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger; and
- (iv) the names of the persons that will become the president, board members, and inspectors at the time of the incorporation of the Incorporated Association-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger, and other matters specified by Cabinet Office Ordinance.

**Division 3 Mergers between a Incorporated Association–Operated  
Financial Instruments Exchange and a Stock Company-Operated  
Financial Instruments Exchange**

(Absorption-Type Merger Agreements between an Incorporated Association-Operated Financial Instruments Exchange and a Stock Company-Operated Financial Instruments Exchange)

Article 139 If an Incorporated Association-Operated Financial Instruments Exchange and a Stock Company-Operated Financial Instruments Exchange effect an absorption-type merger, they must specify the following particulars in the absorption-type merger agreement:

- (i) the trade name and address of the Stock Company-Operated Financial Instruments Exchange that will survive the absorption-type merger (hereinafter referred to as the "Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger" in this Subsection), and the name and address of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger;
- (ii) if the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger will deliver shares, etc. (meaning shares or money; the same applies hereinafter) to members of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger at the time of the absorption-type merger in lieu of equity, the following matters in connection with those shares, etc.:
  - (a) if the shares, etc. are shares in the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger, the number of them (for a company with class shares, the classes of shares and the number of shares in each class) or the method of calculating their number, and the particulars of the stated capital and reserve funds of the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger; and
  - (b) if the shares, etc. are money, the amount of that money or the method of calculating it.
- (iii) in the case prescribed in the preceding item, the particulars of the allotment of the shares, etc. referred to in that item to members of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger; and
- (iv) the Effective Date and other matters specified by Cabinet Office Ordinance.

(Consolidation-Type Merger Agreements between an Incorporated Association-Operated Financial Instruments Exchange and a Stock Company-Operated

Financial Instruments Exchange)

Article 139-2 (1) If a Incorporated Association-Operated Financial Instruments Exchange and a Stock Company-Operated Financial Instruments Exchange implement a consolidation-type merger, they must specify the following particulars in the consolidation-type merger agreement:

- (i) the name and address of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger, and the trade name and address of the Stock Company-Operated Financial Instruments Exchange that will disappear in the consolidation-type merger (hereinafter referred to as the "Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger" in this Subsection);
- (ii) the purpose, trade name, location of the head office, and total number of authorized shares in the Stock Company-Operated Financial Instruments Exchange that will be incorporated in the consolidation-type merger (hereinafter referred to as the "Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger" in this Subsection);
- (iii) beyond what is set forth in the preceding item, the matters specified in the articles of incorporation of the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger;
- (iv) the names of the persons that will become directors at the time of the incorporation of the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger, and the names of the persons that will become accounting auditors at the time of its establishment;
- (v) the matters specified in the relevant of the following sub-items (a) and (b) for the category of cases set forth in the item:
  - (a) if the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger is a company with accounting advisors: the names of the persons that will become accounting advisors at the time of the incorporation of the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger; or
  - (b) if the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger is a company with company auditors: the names of the persons that will become company auditors at the time of the incorporation of the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger.
- (vi) the number of shares in the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger (for a

- company with class shares, the classes of shares and the number of shares in each class) that the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger will deliver to members of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger or shareholders of the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger at the time of the consolidation-type merger in lieu of their equity or shares, or the method of calculating that number; and the particulars of the stated capital and reserve funds of the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger;
- (vii) the particulars of the allotment of the shares referred to in the preceding item to members of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger or shareholders of the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger (other than a shareholder that constitutes the Financial Instruments Exchange Disappearing in the Consolidation-Type Merger);
- (viii) if the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger has issued share options, the following matters as regards the share options in the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger or the money that the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger will deliver to the holders of the share options at the time of the Consolidation-Type Merger, in lieu of their share options:
- (a) if it will deliver share options in the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger to the holders of share options in the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger, the features and number of share options or the method of calculating that number;
- (b) in the case prescribed in sub-item (a), if the share options in the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger referred to in sub-item (a) are the share options that are attached to corporate bond certificates with share options, an indication that the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger will succeed to the obligations connected with corporate bonds in respect of the relevant corporate bond certificates with share options, the classes of corporate bonds subject to the succession, and the total amounts of the corporate

- bonds in each class or the method of calculating such amounts; and
- (c) if it will deliver money to holders of share options in the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger, the amount of that money or the method of calculating it.
- (ix) in the case prescribed in the preceding item, the particulars of the allotment of share options in the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger or the money set forth in that item to the holders of share options in the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger.
- (2) In a case prescribed in the preceding paragraph, if the whole or part of the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger is a company with class shares, the following particulars may be specified as the particulars set forth in item (vii) of that paragraph (limited to the particulars of the shareholders of the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger; the same applies in the following paragraph) in accordance with the features of the class shares issued by the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger:
- (i) if it will not allot shares in the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger to shareholders of certain classes of shares, an indication of this and the relevant classes of shares; and
- (ii) if it will handle the allotment of shares in the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger differently for each class of shares but other than as is set forth in the preceding item, an indication of this and the details of the differing handling.
- (3) In a case prescribed in paragraph (1), the provisions with regard to the particulars set forth in item (vii) of that paragraph must provide that shares in the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger will be delivered in proportion to the number of shares (if the particulars set forth in item (ii) of the preceding paragraph are provided for, the number of shares for each class) held by the shareholders of the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger (other than a shareholder that constitutes one of the Financial Instruments Exchanges Disappearing in the Consolidation-Type Merger and shareholders of the class of shares set forth in item (i) of the preceding paragraph).

## **Division 4 Merger Procedures for Incorporated Association-Operated Financial Instruments Exchanges**

(Procedures for an Incorporated Association-Operated Financial Instruments  
Exchange Disappearing in an Absorption-Type Merger)

Article 139-3 (1) During the period from five days prior to the day of the general meeting referred to in paragraph (3) until the Effective Date, an Incorporated Association-Operated Financial Instruments Exchange Disappearing in an Absorption-Type Merger must keep documents or electronic or magnetic records that state or contain a record of the details of the absorption-type merger agreement and other particulars specified by Cabinet Office Ordinance at its principal office.

(2) The member or creditor of an Incorporated Association-Operated Financial Instruments Exchange Disappearing in an Absorption-Type Merger may make the following requests of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger at any time during its business hours; provided, however, that in making the request referred to in item (ii) or (iv), the member or creditor must pay the cost determined by the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger:

(i) a request to inspect a document referred to in the preceding paragraph;

(ii) a request to be issued a certified copy or extract of a document referred to in the preceding paragraph;

(iii) a request to inspect something that shows the particulars that have been recorded in the electronic or magnetic records referred to in the preceding paragraph, through a means specified by Cabinet Office Ordinance; and

(iv) a request to be provided with the information that has been recorded in the electronic or magnetic records referred to in the preceding paragraph by an electronic or magnetic means specified by Cabinet Office Ordinance, or a request to be issued a document that states those particulars.

(3) An Incorporated Association-Operated Financial Instruments Exchange Disappearing in an Absorption-Type Merger must obtain approval for the absorption-type merger agreement by general meeting resolution, by the day immediately preceding the Effective Date.

(4) An Incorporated Association-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger may not adopt a resolution approving a consolidation-type merger agreement without the affirmative votes of three-fourths or more of all of the members; provided, however, that this does not apply if it is otherwise provided for in the articles of incorporation.

(5) The provisions of Article 101-4 apply mutatis mutandis to an Incorporated

Association-Operated Financial Instruments Exchange Disappearing in an Absorption-Type Merger.

- (6) If an Incorporated Association-Operated Financial Instruments Exchange Disappearing in an Absorption-Type Merger issues the public notice under Article 101-4, paragraph (2) as applied mutatis mutandis pursuant to the preceding paragraph both in the Official Gazette and by the means of public notice (meaning the means by which the Incorporated Association-Operated Financial Instruments Exchange gives its public notices (excluding public notices that, pursuant to the provisions of this Act, must be given by means of publication in the Official Gazette); hereinafter the same applies in this Division) set forth in Article 939, paragraph (1), item (ii) of the Companies Act, in accordance with the provisions of the articles of incorporation under Article 939, paragraph (1) of the Companies Act as applied mutatis mutandis pursuant to the following paragraph, the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger is not required to give the individual notice under Article 101-4, paragraph (2) as applied mutatis mutandis pursuant to the preceding paragraph.
- (7) The provisions of Article 939, paragraph (1) (limited to the part that involves items (i) and (ii)) of the Companies Act apply mutatis mutandis to the public notice referred to in the preceding paragraph.
- (8) An Incorporated Association-Operated Financial Instruments Exchange Disappearing in an Absorption-Type Merger may change the Effective Date by agreement with the Financial Instruments Exchange Surviving the Absorption-Type Merger.
- (9) In the case referred to in the preceding paragraph, the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger shall issue public notice of the new Effective Date by the day immediately preceding the old Effective Date (or, if the new Effective Date comes before the old Effective Date, by the day immediately preceding the new Effective Date).
- (10) If the Effective Date is changed pursuant to the provisions of paragraph (8), the new Effective Date is deemed to be the Effective Date and the provisions of this Subsection apply.

(Procedures for an Incorporated Association-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger)

- Article 139-4 (1) During the period from five days prior to the day of the general meeting referred to in the following paragraph until the day on which six months have elapsed since the Effective Date, the Incorporated Association-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger shall keep the documents or electronic or magnetic records that state or

- contain a record of the details of the absorption-type merger agreement and other particulars specified by Cabinet Office Ordinance, at its principal office.
- (2) An Incorporated Association-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger must obtain approval for the absorption-type merger agreement by general meeting resolution, by the day immediately preceding the Effective Date.
- (3) An Incorporated Association-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger may not adopt a resolution approving an absorption-type merger agreement without the affirmative votes of three-fourths or more of all of the members; provided, however, that this does not apply if it is otherwise provided for in the articles of incorporation.
- (4) The provisions of Article 101-4 apply mutatis mutandis to an Incorporated Association-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger.
- (5) If an Incorporated Association-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger gives a public notice under Article 101-4, paragraph (2) as applied mutatis mutandis pursuant to the preceding paragraph both in the Official Gazette and by the means of public notice set forth in Article 939, paragraph (1), item (ii) of the Companies Act, in accordance with the provisions of the articles of incorporation under Article 939, paragraph (1) of the Companies Act as applied mutatis mutandis pursuant to the following paragraph, the Incorporated Association-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger is not required to give the individual notice under Article 101-4, paragraph (2) as applied mutatis mutandis pursuant to the preceding paragraph.
- (6) The provisions of Article 939, paragraph (1) (limited to the part that involves items (i) and (ii)) of the Companies Act apply mutatis mutandis to the public notice referred to in the preceding paragraph.
- (7) An Incorporated Association-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger shall prepare documents or electronic or magnetic records that state or contain a record of the particulars of the rights and obligations of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger to which the Incorporated Association-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger has succeeded as a result of the absorption-type merger, and that state or contain a record of other particulars specified by Cabinet Office Ordinance as pertinent to the absorption-type merger, without delay after the Effective Date.
- (8) During the six-month period beginning from the Effective Date, an Incorporated Association-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger shall keep the documents or electronic or magnetic

records set forth in the preceding paragraph at its principal office.

- (9) The member or creditor of an Incorporated Association-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger may make the following requests of the Incorporated Association-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger at any time during its business hours; provided, however, that in making the request set forth in item (ii) or (iv), the member or creditor must pay the cost determined by the Incorporated Association-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger:
- (i) a request to inspect a document referred to in paragraph (1) or the preceding paragraph;
  - (ii) a request to be issued a certified copy or extract of a document referred to in paragraph (1) or the preceding paragraph;
  - (iii) a request to inspect something that shows the particulars that have been recorded in the electronic or magnetic records referred to in paragraph (1) or the preceding paragraph, through a means specified by Cabinet Office Ordinance; and
  - (iv) a request to be provided with the particulars that have been recorded in the electronic or magnetic records referred to in paragraph (1) or the preceding paragraph by an electronic or magnetic means specified by Cabinet Office Ordinance, or a request to be issued a document that states those particulars.

(Procedures for an Incorporated Association-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger)

Article 139-5 (1) During the period from 10 days prior to the day of the general meeting referred to in paragraph (3) until the day of the establishment of the Financial Instruments Exchange Incorporated in the Consolidation-Type Merger, an Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger shall keep documents or electronic or magnetic records that state or contain a record of the details of the consolidation-type merger agreement and other particulars specified by Cabinet Office Ordinance, at its principal office.

- (2) The member or creditor of an Incorporated Association-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger may make the following requests of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger at any time during its business hours; provided, however, that in making the request set forth in item (ii) or (iv), the member or creditor must pay the cost determined by the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger:

- (i) a request to inspect a document referred to in the preceding paragraph;
  - (ii) a request to be issued a certified copy or extract of a document referred to in the preceding paragraph;
  - (iii) a request to inspect something that shows the particulars that have been recorded in the electronic or magnetic records referred to in the preceding paragraph, through a means specified by Cabinet Office Ordinance; and
  - (iv) a request to be provided with the particulars that have been recorded in the electronic or magnetic records referred to in the preceding paragraph by an electronic or magnetic means specified by Cabinet Office Ordinance, or a request to be issued a document that states those particulars.
- (3) An Incorporated Association-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger must obtain approval for the consolidation-type merger agreement by general meeting resolution, by the day immediately preceding the Effective Date.
- (4) An Incorporated Association-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger may not adopt a resolution approving a consolidation-type merger agreement without the affirmative votes of three-fourths or more of all of the members; provided, however, that this does not apply if it is otherwise provided for in the articles of incorporation.
- (5) The provisions of Article 101-4 apply mutatis mutandis to an Incorporated Association-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger.
- (6) If an Incorporated Association-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger gives the public notice under Article 101-4, paragraph (2) as applied mutatis mutandis pursuant to the preceding paragraph both in the Official Gazette and by the means of public notice set forth in Article 939, paragraph (1), item (ii) of the Companies Act, in accordance with the provisions of the articles of incorporation under Article 939, paragraph (1) of the Companies Act as applied mutatis mutandis pursuant to the following paragraph, the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger is not required to give the individual notice under Article 101-4, paragraph (2) as applied mutatis mutandis pursuant to the preceding paragraph.
- (7) The provisions of Article 939, paragraph (1) (limited to the part that involves items (i) and (ii)) of the Companies Act apply mutatis mutandis to the public notice referred to in the preceding paragraph.

(Procedures for the Incorporated Association-Operated Financial Instruments Exchange Incorporated in a Consolidation-Type Merger)

Article 139-6 (1) The provisions of Article 88-3, paragraphs (1) and (3), Article 88-4 and Article 88-22 do not apply to the incorporation of the Incorporated

Association–Operated Financial Instruments Exchange Incorporated in a Consolidation-Type Merger.

- (2) The Incorporated Association-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger shall prepare the articles of incorporation of the Incorporated Association-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger.
- (3) The Incorporated Association-Operated Financial Instruments Exchange Incorporated in a Consolidation-Type Merger shall prepare documents or electronic or magnetic records that state or contain a record of the particulars of the rights and obligations of the Incorporated Association–Operated Financial Instruments Exchanges Disappearing in the Consolidation-Type Merger to which the Incorporated Association–Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger has succeeded as a result of the Consolidation-Type Merger, and that state or contain a record of other particulars specified by Cabinet Office Ordinance as pertinent to the Consolidation-Type Merger, without delay after the day of its establishment.
- (4) During the six-month period beginning from the day of its establishment, the Incorporated Association–Operated Financial Instruments Exchange Incorporated in a Consolidation-Type Merger shall keep the documents or electronic or magnetic records referred to in the preceding paragraph, and documents or electronic or magnetic records that state or contain a record of the details of the Consolidation-Type Merger agreement and other particulars specified by Cabinet Office Ordinance, at its principal office.
- (5) The member or creditor of a Incorporated Association–Operated Financial Instruments Exchange Incorporated in a Consolidation-Type Merger may make the following requests of the Incorporated Association–Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger at any time during its business hours; provided, however, that in making the request set forth in item (ii) or (iv), the member or creditor must pay the cost determined by the Incorporated Association–Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger:
  - (i) a request to inspect a document referred to in the preceding paragraph;
  - (ii) a request to be issued a certified copy or extract of a document referred to in the preceding paragraph;
  - (iii) a request to inspect something that shows the particulars that have been recorded in the electronic or magnetic records referred to in the preceding paragraph, through a means specified by Cabinet Office Ordinance; and
  - (iv) a request to be provided with the particulars that have been recorded in the electronic or magnetic records referred to in the preceding paragraph by an electronic or magnetic means specified by Cabinet Office Ordinance, or a request to be issued a document that states those particulars.

## **Division 5 Merger Procedures for Financial Instruments Exchanges Operated as a Stock Company**

(The Keeping and Inspection of Absorption-Type Merger Agreement  
Documents)

Article 139-7 (1) During the period from any of the following days, whichever comes the earliest, until the day on which six months have elapsed since the Effective Date, a Stock Company-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger (limited to the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger in an absorption-type merger between an Incorporated Association-Operated Financial Instruments Exchange and a Stock Company-Operated Financial Instruments Exchange; hereinafter the same applies in this Division) shall keep documents or electronic or magnetic records that state or contain a record of the details of the absorption-type merger agreement and other particulars specified by Cabinet Office Ordinance, at its head office:

- (i) if approval for the absorption-type merger agreement must be obtained by a shareholders resolution (including a class shareholders resolution; hereinafter the same applies in this item): the day two weeks prior to the day of the relevant shareholders meeting;
- (ii) the day of the notice under Article 139-10, paragraph (1) or the day of the public notice under Article 139-10, paragraph (2), whichever comes earlier; or
- (iii) if the procedures under Article 139-12 are required: the day of the public notice under Article 139-12, paragraph (2) or the day of the notice under that paragraph, whichever comes earlier.

(2) The shareholder or creditor of a Stock Company-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger may make the following requests of the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger at any time during business hours; provided, however, that in making the request set forth in item (ii) or (iv), the shareholder or creditor must pay the cost determined by the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger:

- (i) a request to inspect a document referred to in the preceding paragraph;
- (ii) a request to be issued a certified copy or extract of a document referred to in the preceding paragraph;
- (iii) a request to inspect something that shows the particulars that have been recorded in the electronic or magnetic records referred to in the preceding paragraph, through a means specified by Cabinet Office Ordinance; and
- (iv) a request to be provided with the particulars that have been recorded in

the electronic or magnetic records referred to in the preceding paragraph by an electronic or magnetic means specified by Cabinet Office Ordinance, or a request to be issued a document that states those particulars.

(Approval of an Absorption-Type Merger Agreement)

Article 139-8 (1) The Stock Company-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger must obtain approval for the absorption-type merger agreement by a shareholders resolution, by the day immediately preceding the Effective Date.

(2) If the assets of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in an Absorption-Type Merger which are to be succeeded to include shares in the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger, the directors must give an explanation of matters related to those shares before the shareholders referred to in the preceding paragraph.

(3) If the Stock Company-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger is a company with class shares, and the shares, etc. delivered to members of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger are shares in the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger, the Absorption-Type Merger does not become effective without a resolution of the class shareholders for the class shares set forth in Article 139, item (ii), sub-item (a) (limited to shares with a restriction on transfer for which the provisions of the articles of incorporation which are referred to in Article 199, paragraph (4) of the Companies Act have not been made) (or, if there are two or more classes of shares associated with such class shareholders, without the resolutions of each group of class shareholders whose constituent members are the class shareholders in each separate class of those two or more classes of shares); provided, however, that this does not apply if there are no shareholders that are entitled to exercise voting rights at the class shareholders meeting.

(4) The shareholders resolution referred to in paragraph (1) must be effected with at least a two-thirds majority (or, if a higher proportion is provided for in the articles of incorporation, such a proportion or more) of the votes of the attending shareholders, at a meeting where shareholders holding over half the voting rights (if a proportion of one-third or more is specified by the articles of incorporation, at least such a proportion) of the shareholders that are entitled to exercise voting rights at the shareholders meeting, are present. In such a case, the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger is not precluded from setting provisions in its articles of incorporation requiring at least a certain number of affirmative

votes from the shareholders or other requirements, in addition to the requirement for such a resolution.

- (5) The provisions of the preceding paragraph apply mutatis mutandis to the class shareholders referred to in paragraph (3).

(When Approval for an Absorption-Type Merger Agreement Is Not Required)

Article 139-9 (1) The provisions of paragraphs (1) and (2) of the preceding Article do not apply unless the proportion of the amount set forth in item (i) to the amount set forth in item (ii) exceeds one-fifth (or, if a smaller proportion is prescribed in the articles of incorporation of the Stock Company-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger, such a proportion); provided, however, that this does not apply if all or part of the shares, etc. delivered to the members of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger are shares with a restriction on transfer in the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger, and the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger is not a Public Company (meaning a Public Company as prescribed in Article 2, item (v) of the Companies Act; the same applies in paragraph (2), item (i) of the following Article and Article 139-15, paragraph (3)):

(i) the total of the amounts set forth in the following:

(a) the amount arrived at when the number of shares in the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger to be delivered to members of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger is multiplied by the Amount of Net Assets per Share (meaning the Amount of Net Assets per Share as prescribed in Article 141, paragraph (2) of the Companies Act); and

(b) the total amount of money to be delivered to members of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger.

(ii) the amount calculated as the amount of net assets of the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger, by the method specified by Cabinet Office Ordinance.

- (2) In a case prescribed in the main clause of the preceding paragraph, if shareholders holding the number of shares specified by Cabinet Office Ordinance (limited to shares in respect of which voting rights may be exercised at the shareholders meeting referred to in paragraph (1) of the preceding Article) notify the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger that they are against the absorption-

type merger within two weeks from the day of the notice under paragraph (1) of the following Article or within two weeks from the day of the public notice referred to in paragraph (2) of that Article, the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger must obtain approval for the absorption-type merger agreement by shareholders resolution, by the day immediately preceding the Effective Date.

(Notifying the Shareholders)

Article 139-10 (1) The Stock Company-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger must notify its shareholders and holders of share options that the absorption-type merger will be effected and indicate the name and address of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger (and of the matters related to the shares which are referred to in Article 139-8, paragraph (2), in the case prescribed in that paragraph), by 20 days prior to the Effective Date.

(2) In the following cases, public notice may be substituted for the notice under the preceding paragraph:

(i) the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger is a Public Company; or

(ii) the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger obtains approval for the absorption-type merger agreement by the shareholders resolution referred to in Article 139-8, paragraph (1).

(3) The provisions of Article 940, paragraph (1) (limited to the part that involves item (i)) and paragraph (3) of the Companies Act apply mutatis mutandis if the Stock Company-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger issues the public notice referred to in the preceding paragraph through an Electronic Public Notice. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Demanding a Share Buy-out)

Article 139-11 (1) If an absorption-type merger is effected, in a case set forth in one of the following items, the shareholder set forth in that item may demand the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger to buy-out its shares at a fair price:

(i) if a shareholders resolution (including a class shareholders resolution) is required in order for the absorption-type merger to be effected: the following shareholders:

(a) a shareholder that notifies the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger that it is

- against the absorption-type merger prior to the shareholders meeting, and that opposes the absorption-type merger at the shareholders meeting (limited to one that is entitled to exercise voting rights at that shareholders meeting); or
- (b) a shareholder that is not entitled to exercise the voting rights at the shareholders meeting.
- (ii) cases other than that prescribed in the preceding item: all shareholders.
- (2) The provisions of Article 797, paragraphs (5) to (7) inclusive of the Companies Act and of Article 798; Article 868, paragraph (1); Article 870 (limited to the part that involves item (iv)); the main clause of Article 871; Article 872 (limited to the part that involves item (iv)); the main clause of Article 873; Article 875; and Article 876 of that Act apply mutatis mutandis to a demand under the preceding paragraph. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Objection of the Creditors)

- Article 139-12 (1) The creditor of a Stock Company-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger may state an objection to the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger with regard to the absorption-type merger.
- (2) The Stock Company-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger shall make a public notice of the following particulars in the Official Gazette, and shall give a notice of those particulars to its known creditors individually (including to the corporate bond manager under Article 702 of the Companies Act (simply referred to as the "Corporate Bond Manager" in paragraph (8)), if there is a Corporate Bond Manager); provided, however, that the period set forth in item (iv) may not be less than one month:
- (i) that an absorption-type merger will be effected;
- (ii) the name and address of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger;
- (iii) particulars specified by Cabinet Office Ordinance as pertinent to the financial statements of the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger; and
- (iv) that a creditor may state an objection within a specified period.
- (3) Notwithstanding the provisions of the preceding paragraph, if the Stock Company-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger makes a public notice under in that paragraph both in the Official Gazette and by the Means of Public Notice set forth in Article 939, paragraph (1), item (ii) of the Companies Act (meaning a Means of Public Notice as defined in Article 2, item (xxxiii) of that Act) or through an Electronic Public

Notice, in accordance with the provisions of the articles of incorporation under Article 939, paragraph (1) of that Act, the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger is not required to give the individual notice under the preceding paragraph.

- (4) If a creditor does not state an objection within the period referred to in paragraph (2), item (iv), the creditor is deemed to accept the absorption-type merger.
- (5) If a creditor states an objection within the period referred to in paragraph (2), item (iv), the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger shall pay its debt or provide suitable collateral to the creditor, or shall deposit suitable property with a Trust Company, etc. for the purpose of allowing the creditor to receive payment for the debt; provided, however, that this does not apply if the Absorption-Type Merger is unlikely to be detrimental to the creditor.
- (6) The provisions of Article 940, paragraph (1) (limited to the part that involves item (iii)) and paragraph (3) of the Companies Act apply mutatis mutandis if the Stock Company-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger makes a public notice under paragraph (2) through an Electronic Public Notice. The necessary technical replacement of terms for such a case is specified by Cabinet Order.
- (7) In order for corporate bondholders to state an objection pursuant to the provisions of paragraph (1), they must do so pursuant to a corporate bondholders meeting resolution. In such a case, the court may extend the period for a corporate bondholder to state an objection, at the petition of an interested party.
- (8) Notwithstanding the provisions of the preceding paragraph, a Corporate Bond Manager may state an objection on behalf of a corporate bondholder; provided, however, that this does not apply if otherwise provided for in the contract for entrustment under Article 702 of the Companies Act.
- (9) The provisions of Article 868, paragraph (3) of the Companies Act and of Article 870 (limited to the part that involves item (xi)); the main clause of Article 871; Article 872 (limited to the part that involves item (iv)); Article 875; and Article 876 of that Act apply mutatis mutandis to a case that is subject to the petition referred to in paragraph (7).

(The Keeping and Inspection of Absorption-Type Merger Documents)

Article 139-13 (1) The Stock Company-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger shall prepare documents or electronic or magnetic records that state or contain a record of the rights and obligations of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger to which Stock

Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger has succeeded as a result of the absorption-type merger, and that state or contain a record of other particulars specified by Cabinet Office Ordinance as pertinent to the absorption-type merger, without delay after the Effective Date.

- (2) During the six-month period beginning from the Effective Date, the Stock Company-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger shall keep the documents or electronic or magnetic records set forth in the preceding paragraph at its head office.
- (3) The shareholder or creditor of a Stock Company-Operated Financial Instruments Exchange Surviving an Absorption-Type Merger may make the following requests of the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger at any time during its business hours; provided, however, that in making the request set forth in item (ii) or (iv), the shareholder or creditor must pay the cost determined by the Stock Company-Operated Financial Instruments Exchange Surviving the Absorption-Type Merger:
  - (i) a request to inspect a document referred to in the preceding paragraph;
  - (ii) a request to be issued a certified copy or extract of a document referred to in the preceding paragraph;
  - (iii) a request to inspect something that shows the particulars that have been recorded in the electronic or magnetic records referred to in the preceding paragraph, through a means specified by Cabinet Office Ordinance; and
  - (iv) a request to be provided with the particulars that have been recorded in the electronic or magnetic records referred to in the preceding paragraph by the electronic or magnetic means specified by Cabinet Office Ordinance, or a request to be issued a document that states those particulars.

(The Keeping and Inspection of Consolidation-Type Merger Documents)

Article 139-14 (1) During the period from two weeks prior to the day of the shareholders meeting referred to in the paragraph (1) of the following Article until the day of establishment of the Stock Company-Operated Financial Instruments Exchange Incorporated in a Consolidation-Type Merger, the Stock Company-Operated Financial Instruments Exchanges Disappearing in the Consolidation-Type Merger (limited to the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger, in the case of a consolidation-type merger between an Incorporated Association-Operated Financial Instruments Exchange and a Stock Company-Operated Financial Instruments Exchange; hereinafter the same applies in this Division) shall keep documents or electronic or magnetic records that state or contain a record of the details of the Consolidation-Type Merger agreement and other

particulars specified by Cabinet Office Ordinance, at their head offices.

- (2) The shareholder or creditor of a Stock Company-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger may make the following requests of the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger at any time during its business hours; provided, however, that in making the request set forth in item (ii) or (iv), the shareholder or creditor must pay the cost determined by the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger:
- (i) a request to inspect a document referred to in the preceding paragraph;
  - (ii) a request to be issued a certified copy or extract of a document referred to in the preceding paragraph;
  - (iii) a request to inspect something that shows the particulars that have been recorded in the electronic or magnetic records referred to in the preceding paragraph, through a means specified by Cabinet Office Ordinance; and
  - (iv) a request to be provided with the particulars that have been recorded in the electronic or magnetic records referred to in the preceding paragraph by an electronic or magnetic means specified by Cabinet Office Ordinance, or a request to be issued a document that states those particulars.

(Approval of Consolidation-Type Merger Agreement)

Article 139-15 (1) A Stock Company-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger must obtain approval for the consolidation-type merger agreement by a shareholders resolution.

- (2) The shareholders resolution referred to in the preceding paragraph must be effected with at least a two-thirds majority (or, if a higher proportion is provided for in the articles of incorporation, at least such a proportion) of the votes of the attending shareholders, at a meeting where shareholders holding over half the voting rights (if a proportion of one-third or more is specified by the articles of incorporation, at least such a proportion) of the shareholders that are entitled to exercise voting rights at the relevant shareholders meeting, are present. In such a case, a Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger is not precluded from setting provisions in its articles of incorporation requiring at least a certain number of affirmative votes from the shareholders or other requirements, in addition to the requirement for such a resolution.
- (3) Notwithstanding the provisions of the preceding paragraph, if a Stock Company-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger is a Public Company, and all or part of the shares in the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger that will be delivered to the shareholders of

the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger are shares with a restriction on transfer, the shareholders resolution referred to in paragraph (1) (excluding a shareholders resolution at a company with class shares) must be in accordance with Article 309, paragraph (3) of the Companies Act.

- (4) If a Stock Company-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger is a company with class shares, and all or part of the shares in the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger that will be delivered to the shareholders of the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger are shares with a restriction on transfer, the Consolidation-Type Merger does not become effective without a resolution of the class shareholders for the class of shares (other than shares with a restriction on transfer) subject to the allotment of shares with a restriction on transfer (or, if there are two or more classes of shares associated with such class shareholders, without the resolutions of each group of class shareholders whose constituent members are the class shareholders in each separate class of those two or more classes of shares); provided, however, that this does not apply if there are no shareholders that are entitled to exercise their voting rights at such a class shareholders meeting.
- (5) The class shareholders resolution referred to in the preceding paragraph is effected with a majority that constitutes at least two-thirds (or, if a higher proportion is provided for in the articles of incorporation, such a proportion) of the votes of at least half (or, if a higher proportion is provided for in the articles of incorporation, at least such a proportion) of the number of shareholders that are entitled to exercise voting rights at the relevant class shareholders meeting.

(Notifying the Shareholders)

Article 139-16 (1) A Stock Company-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger must notify its shareholders and registered pledgees of shares as well as the holders of share options and registered pledgees of share options that a consolidation-type merger will be effected, and must indicate the names or trade names and addresses of any other Financial Instruments Exchange Disappearing in the Consolidation-Type Merger and of the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger, within two weeks from the day of the shareholders resolution set forth in paragraph (1) of the preceding Article.

- (2) Public notice may be substituted for the notice under the preceding paragraph.
- (3) The provisions of Article 940, paragraph (1) (limited to the part that involves

item (i)) and paragraph (3) of the Companies Act apply mutatis mutandis if a Stock Company-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger makes the public notice referred to in the preceding paragraph through an Electronic Public Notice. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Demanding a Share Buy-out)

Article 139-17 (1) If a consolidation-type merger is effected, the following shareholders may demand a Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger to buy-out its shares at a fair price:

- (i) a shareholder that notifies the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger that it is against the consolidation-type merger prior to the shareholders meeting (including a class shareholders meeting) for approving the consolidation-type merger agreement, and that opposes the consolidation-type merger at the shareholders meeting (limited to one that is entitled to exercise voting rights at that shareholders meeting); and
- (ii) a shareholder that is not entitled to exercise voting rights at such a shareholders meeting.

(2) The provisions of Article 806, paragraphs (5) to (7) inclusive of the Companies Act and of Article 807; Article 868, paragraph (1); Article 870 (limited to the part that involves item (iv)); the main clause of Article 871; Article 872 (limited to the part that involves item (iv)); the main clause of Article 873; Article 875; and Article 876 of that Act apply mutatis mutandis to a demand under the preceding paragraph. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Demanding a Share Option Buy-out)

Article 139-18 (1) If a consolidation-type merger is effected, a holder of share options in a Stock Company-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger may request the Stock Company-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger to buy out its share options at a fair price.

(2) The provisions of Article 808, paragraphs (5) to (7) inclusive of the Companies Act and of Article 809; Article 868, paragraph (1); Article 870 (limited to the part that involves item (iv)); the main clause of Article 871; Article 872 (limited to the part that involves item (iv)); the main clause of Article 873; Article 875; and Article 876 of that Act apply mutatis mutandis to a demand under the preceding paragraph. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Provisions Applied Mutatis Mutandis)

Article 139-19 The provisions of Article 139-12 apply mutatis mutandis to a Stock Company-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger.

(Special Provisions on the Incorporation of a Stock Company-Operated Financial Instruments Exchange)

Article 139-20 (1) The provisions of Part II, Chapter I (excluding Article 27 (other than items (iv) and (v)); Article 29; Article 31; Article 39; Section 6; and Article 49) of the Companies Act do not apply to the incorporation of a Stock Company-Operated Financial Instruments Exchange Incorporated in a Consolidation-Type Merger.

(2) The Financial Instruments Exchanges Disappearing in a Consolidation-Type Merger shall prepare the articles of incorporation of the Stock Company-Operated Financial Instruments Exchange Established in the Consolidation-Type Merger.

(The Keeping and Inspection of Consolidation-Type Merger Agreement Documents)

Article 139-21 (1) The Stock Company-Operated Financial Instruments Exchange Incorporated in a Consolidation-Type Merger shall prepare documents or electronic or magnetic records that state or contain a record of the rights and obligations of the Financial Instruments Exchanges Disappearing in the Consolidation-Type Merger to which the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger has succeeded as a result of the consolidation-type merger, and that state or contain a record of other particulars specified by Cabinet Office Ordinance as pertinent to the consolidation-type merger, without delay after the day of its establishment.

(2) During the six-month period beginning from the day of its establishment, the Stock Company-Operated Financial Instruments Exchange Incorporated in a Consolidation-Type Merger shall keep the documents or electronic or magnetic records referred to in the preceding paragraph at its head office.

(3) The shareholder or creditor of a Stock Company-Operated Financial Instruments Exchange Incorporated in a Consolidation-Type Merger may make the following requests of the Stock Company-Operated Financial Instruments Exchange Incorporated in the Consolidation-Type Merger at any time during its business hours; provided, however, that in making the request set forth in item (ii) or (iv), the shareholder or creditor must pay the cost determined by the Stock Company-Operated Financial Instruments Exchange Incorporated in

the Consolidation-Type Merger:

- (i) a request to inspect a document referred to in the preceding paragraph;
- (ii) a request to be issued a certified copy or extract of a document referred to in the preceding paragraph;
- (iii) a request to inspect something that shows the particulars that have been recorded in the electronic or magnetic records referred to in the preceding paragraph, through a means specified by Cabinet Office Ordinance; and
- (iv) a request to be provided with the particulars that have been recorded in the electronic or magnetic records referred to in the preceding paragraph by an electronic or magnetic means specified by Cabinet Office Ordinance, or a request to be issued a document that states those particulars.

### **Division 6 The Coming Into Effect of a Merger**

(Authorization for a Merger)

Article 140 (1) A merger in which Financial Instruments Exchanges constitute all or part of the parties (limited to a merger in which the person surviving the merger or the person incorporated in the merger is a Financial Instruments Exchange) does not become effective without the authorization of the Prime Minister.

(2) A person seeking the authorization referred to in the preceding paragraph must submit a written application for authorization of a merger to the Prime Minister, in which it states the following particulars with regard to the Financial Instruments Exchange surviving the merger or the Financial Instruments Exchange incorporated in the merger (hereinafter collectively referred to as the "Financial Instruments Exchange Resulting from a Merger" in this Division):

- (i) its name or trade name;
- (ii) the locations of its offices, head office, branch offices, and any other business offices; and
- (iii) the names of its officers, and the trade names or names of its Members, etc.

(3) Documents or electronic or magnetic records that state or contain a record of the contents of a merger agreement (limited to those specified by Cabinet Office Ordinance; hereinafter the same applies in this paragraph), and the articles of incorporation, operational rules, brokerage contract rules, and other documents or electronic or magnetic records specified by Cabinet Office Ordinance with regard to the Financial Instruments Exchange Resulting from a Merger must accompany the written application for authorization of a merger referred to in the preceding paragraph.

(Criteria for Authorization)

Article 141 (1) Whenever an application for authorization under paragraph (2) of the preceding Article is filed, the Prime Minister shall examine whether the application conforms to the following criteria:

- (i) the provisions of the articles of incorporation, operational rules, and brokerage contract rules of the Financial Instruments Exchange Resulting from the Merger conform to laws and regulations, and are sufficient for ensuring fair and smooth purchase and sales of Securities and Market Transactions of Derivatives on the Financial Instruments Exchange Market, as well as for protecting investors;
  - (ii) the Financial Instruments Exchange Resulting from the Merger has a sufficient personnel structure to run a Financial Instruments Exchange Market in an appropriate manner;
  - (iii) the Financial Instruments Exchange Resulting from the Merger will be organized as a Financial Instruments Exchange in a manner that conforms to the provisions of this Act; and
  - (iv) it is reliable to expect that the Financial Instruments Exchange Resulting from the Merger will smoothly and appropriately succeed to business connected with the purchase and sale of Securities and Market Transactions of Derivatives on the Financial Instruments Exchange Markets operated by the Financial Instruments Exchanges that disappear as a result of the merger.
- (2) If, as a result of having conducted an examination pursuant to the provisions of the preceding paragraph, the Prime Minister finds that an application conforms to the criteria in that paragraph, the Prime Minister shall authorize the merger, except in a case that falls under one of the following items:
- (i) a person falling under one of Article 29-4, paragraph (1), item (ii), sub-items (a) to (g) inclusive of this Act or Article 331, paragraph (1), item (iii) of the Companies Act is an officer; or
  - (ii) the written application for authorization of the merger or a document or electronic or magnetic record that is required to accompany it contains a false statement or false record about a material particular.

(Deemed License)

- Article 142 (1) A Financial Instruments Exchange that is incorporated after obtaining Article 140, paragraph (1) authorization is deemed to have been licensed as referred to in Article 80, paragraph (1) at the time of incorporation.
- (2) The Financial Instruments Exchange Surviving an Absorption-Type Merger succeeds to the rights and obligations of the Financial Instruments Exchange Disappearing in the Absorption-Type Merger (including the rights and obligations that the Financial Instruments Exchange Disappearing in the Absorption-Type Merger has in connection with business it conducts based on

the authorization or any other disposition of a government agency) on the Effective Date.

- (3) The dissolution of a Financial Instruments Exchange Disappearing in an Absorption-Type Merger as a result of the absorption-type merger may not be asserted against a third party until after the registration of the absorption-type merger.
- (4) A Financial Instruments Exchange Incorporated in a Consolidation-Type Merger succeeds to the rights and obligations of the Financial Instruments Exchanges Disappearing in the Consolidation-Type Merger on the day of its establishment (including the rights and obligations that the Financial Instruments Exchanges Disappearing in the Consolidation-Type Merger have in connection with business they conduct based on the authorization or any other disposition of a government agency).
- (5) In the cases prescribed in the provisions that are set forth in the following items, the members of an Incorporated Association-Operated Financial Instruments Exchange Disappearing in an Absorption-Type Merger, the members of an Incorporated Association-Operated Financial Instruments Exchange Operated Disappearing in a Consolidation-Type Merger, or the shareholders of a Stock Company-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger, become shareholders of the shares prescribed in the provisions that are set forth in the relevant item, in accordance with the provisions on the particulars provided for in that item:
  - (i) Article 139, item (ii), sub-item (a): particulars set forth in item (iii) of that Article; and
  - (ii) Article 139-2, paragraph (1), item (vi): particulars set forth in item (vii) of that paragraph.
- (6) Share options in a Stock Company-Operated Financial Instruments Exchange that disappears as a result of a merger disappear on the Effective Date.
- (7) The outstanding purchase and sales of Securities and Market Transactions of Derivatives entered into on a Financial Instruments Exchange Market that was operated by a Financial Instruments Exchange that has disappeared as a result of a merger are deemed to be transactions entered into on the Financial Instruments Exchange Market operated by the Financial Instruments Exchange Resulting from the Merger, under the same conditions.
- (8) The provisions of the preceding paragraphs do not apply to the following cases:
  - (i) the procedures under Article 101-4, as applied mutatis mutandis pursuant to Article 139-3, paragraph (5) or Article 139-4, paragraph (4), or the procedures under Article 139-12 (including as applied mutatis mutandis pursuant to Article 139-19) have not been completed; or
  - (ii) the absorption-type merger is suspended.

(Dealing with Parts Less than the Whole)

Article 143 (1) The provisions of Article 234, paragraphs (1) to (5) inclusive of the Companies Act and of Article 868, paragraph (1); Article 869; Article 871; Article 874 (limited to the part that involves item (iv)); Article 875; and Article 876 of that Act apply mutatis mutandis if parts that constitute less than one unit of contribution or one share result from the merger under Article 136, paragraph (1). The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(2) The amounts that are required to be included in the capital reserves at the time of a merger and necessary particulars otherwise relevant to the accounting at the time of a merger are specified by Cabinet Office Ordinance.

(Submission of Share Certificates)

Article 144 (1) The provisions of Article 219, paragraph (1) (limited to the part that involves item (vi)), paragraphs (2) and (3) of the Companies Act and of Article 220 and Article 293, paragraph (1) (limited to the part that involves item (iii)) and paragraphs (2) to (4) inclusive of that Act apply mutatis mutandis to a Stock Company-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(2) The provisions of Article 940, paragraph (1) (limited to the part that involves item (i)) and paragraph (3) of the Companies Act apply mutatis mutandis if a Stock Company-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger makes a public notice under Article 219, paragraph (1) or Article 293, paragraph (1) of that Act as applied mutatis mutandis pursuant to the preceding paragraph through an Electronic Public Notice; and the provisions of Article 940, paragraph (1) (limited to the part that involves item (iii)) and paragraph (3) of that Act apply mutatis mutandis if a Stock Company-Operated Financial Instruments Exchange Disappearing in a Consolidation-Type Merger issues the public notice under Article 220, paragraph (1) of that Act as applied mutatis mutandis pursuant to the preceding paragraph (including as applied mutatis mutandis pursuant to Article 293, paragraph (4) of that Act, as applied mutatis mutandis pursuant to the preceding paragraph) through an Electronic Public Notice. The necessary technical replacement of terms for such a case is specified by Cabinet Order.

(Mutatis Mutandis Application of the Commercial Registration Act)

Article 145 (1) The provisions of Article 79 of the Commercial Registration Act and of Article 80 (excluding items (ii), (vi), (ix) and (x)); Article 81 (excluding items (iii), (vi), (ix) and (x)); Article 82; and Article 83 of that Act shall mutatis

mutandis to the registration of an Incorporated Association- Operated Financial Instruments Exchange upon merger in a case set forth in Article 136, paragraph (2), item (i). In this case, in Article 79 of that Act, the phrase "trade name and head office" is deemed to be replaced with "name and principal office"; in Article 80, items (iii) and (viii), and Article 81, item (viii) of that Act, the phrase "publication in a daily newspaper that publishes matters on current affairs or by means of electronic public notices" is deemed to be replaced with "publication in a daily newspaper that publishes information on current affairs"; in Article 80, item (iv) of that Act, the phrase "amount of stated capital" is deemed to be replaced with "total amount of contributions"; in Article 80, item (v) and Article 81, item (v) of that Act, the term "head office" is deemed to be replaced with "office"; in Article 80, item (vii) of that Act, the phrase "in cases where a company absorbed in absorption-type merger is a membership company, a document evidencing that the consent of all members has been obtained (or, in cases where otherwise provided for in its articles of incorporation, that the procedures under such provision have been performed)" is deemed to be replaced with "minutes of the general meeting of members concerning the merger of the Incorporated Association-Operated Financial Instruments Exchange effecting the absorption-type merger"; in Article 80, item (viii) and Article 81, item (viii) of that Act, the phrase "a stock company or a limited liability company" is deemed to be replaced with " Incorporated Association- Operated Financial Instruments Exchange " and in those Articles, the phrase "the following documents" is deemed to be replaced with "the following documents and a document evidencing the credentials of the person with the authority of representation"; in Article 81, item (vii) of that Act, the phrase "in cases where a company consolidated through consolidation-type merger is a membership company, a document evidencing that the consent of all members has been obtained (or, in cases where otherwise provided for in its articles of incorporation, that the procedures under said provision have been performed)" is deemed to be replaced with "minutes of the general meetings of members concerning the merger of the Incorporated Association-Operated Financial Instruments Exchanges Disappearing in the Consolidation-Type Merger"; in Article 82, paragraphs (2) to (4) inclusive and Article 83 of that Act, the term "head office" is deemed to be replaced with "principal office"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(2) The provisions of Article 79 of the Commercial Registration Act and of Article 80 (excluding items (vi), (ix) and (x)) and Articles 81 to 83 inclusive of that Act apply mutatis mutandis to the registration of a Incorporated Association- Operated Financial Instruments Exchange or Stock Company-Operated Financial Instruments Exchange upon merger in a case set forth in Article 136, paragraph (2), item (ii). In this case, in Article 79 of that Act, the phrase "trade

name and head office" is deemed to be replaced with "name or trade name, and the principal office or head office"; in Article 80, item (v) of that Act, the term "head office" is deemed to be replaced with "office"; in Article 80, item (vii) of that Act, the phrase "in cases where a company absorbed in absorption-type merger is a membership company, a document evidencing that the consent of all members has been obtained (or, in cases where otherwise provided for in its articles of incorporation, that the procedures under such provision have been performed)" is deemed to be replaced with "minutes of the general meeting of members concerning the merger of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Absorption-Type Merger"; in Article 80, item (viii) of that Act, the phrase "publication in a daily newspaper that publishes matters on current affairs or by means of electronic public notices" is deemed to be replaced with "publication in a daily newspaper that publishes information on current affairs" and the phrase "a stock company or a limited liability company" is deemed to be replaced with "an Incorporated Association-Operated Financial Instruments Exchange "; in Article 81, item (v) of that Act, the term "head office" is deemed to be replaced with "office or head office"; in Article 81, item (vii) of that Act, the phrase "in cases where a company consolidated through consolidation-type merger is a membership company, a documents evidencing that the consent of all members has been obtained (or, in cases where otherwise provided for in its articles of incorporation, that the procedures under said provision have been performed)" is deemed to be replaced with "minutes of the general meetings of members concerning the merger of the Incorporated Association-Operated Financial Instruments Exchange Disappearing in the Consolidation-Type Merger"; in Article 81, item (viii) of that Act, the phrase "a stock company or a limited liability company" is deemed to be replaced with "an Incorporated Association-Operated Financial Instruments Exchange or Stock Company-Operated Financial Instruments Exchange"; in Article 83, paragraph (2) of that Act, the phrase "the head office of a company consolidated through consolidation-type merger" is deemed to be replaced with "the principal offices and head offices of the Financial Instruments Exchanges Disappearing in the Consolidation-Type Merger"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(Action to Invalidate a Merger)

Article 146 The provisions of Article 828, paragraph (1) (limited to the part that involves item (vii) and item (viii)) and paragraph (2) (limited to the part that involves item (vii) and item (viii)) of the Companies Act and of Article 834 (limited to the part that involves item (vii) and item (viii)); Article 835, paragraph (1); Articles 836 to 839 inclusive; Article 843 (excluding paragraph

(1), item (iii) and item (iv) and the proviso to paragraph (2)); Article 846; and Article 937, paragraph (3) (limited to the part that involves item (ii) and item (iii)) and paragraph (4) of that Act apply mutatis mutandis to the action to invalidate a merger referred to in Article 136, paragraph (1); and the provisions of Article 868, paragraph (5) of the Companies Act and of Article 870 (limited to the part that involves item (xv)); the main clause of Article 871; Article 872 (limited to the part that involves item (iv)); the main clause of Article 873; Article 875; and Article 876 of that Act apply mutatis mutandis to the petition referred to in Article 843, paragraph (4) of that Act as applied mutatis mutandis pursuant to this Article. In this case, in Article 828, paragraph (2), item (vii) of the Companies Act, the phrase "a Shareholder, etc. or a Partner, etc." is deemed to be replaced with "a Member, etc. (meaning a member, president, director, inspector, or liquidator; hereinafter the same applies in this item)" and the phrase "a Shareholder, etc., a Partner, etc." is deemed to be replaced with "a Member, etc., Shareholder, etc. (meaning a shareholder, director, or liquidator (if it is a company with company auditors, this means a shareholder, director, company auditor, or liquidator; and if it is a company with committees, this means a shareholder, director, executive officer, or liquidator))"; in item (viii) of the same Article, the phrase "a Shareholders, etc. or a Partner, etc." is deemed to be replaced with "a Member, etc. (meaning a member, president, director, inspector, or liquidator; hereinafter the same applies in this item) or Shareholder, etc. (meaning a shareholder, director, or liquidator (if it is a company with company auditors, this means a shareholder, director, company auditor, or liquidator; and if it is a company with committees, this means a shareholder, director, executive officer, or liquidator; hereinafter the same applies in this item))" and the phrase "a Shareholder, etc., a Partner, etc." is deemed to be replaced with "a Member, etc., Shareholder, etc."; in Article 937, paragraph (3) of that Act, the term "head office" is deemed to be replaced with "head office (if it is an Incorporated Association-Operated Financial Instruments Exchange, the principal office and secondary offices)"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(Application of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade)

Article 147 (1) If an Incorporated Association-Operated Financial Instruments Exchange and a Stock Company-Operated Financial Instruments Exchange effect a merger, the Incorporated Association-Operated Financial Instruments Exchange is deemed to be a company, and Article 15 of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade and the provisions of that Act that are related to that Article apply.

(2) If a Stock Company-Operated Financial Instruments Exchange is transferred the whole or part an Incorporated Association-Operated Financial Instruments Exchange's business, the Incorporated Association-Operated Financial Instruments Exchange is deemed to be a company, and Article 467 of the Companies Act and the provisions of that Act which are related to that Article, as well as Article 16 of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade and the provisions of that Act which are related to that Article, apply.

## **Section 5 Supervision**

(Rescission of a License)

Article 148 If a Financial Instruments Exchange is discovered to have fallen under one of the categories in the items of Article 82, paragraph (2) at the time it obtained its license, the Prime Minister may rescind its license.

(Authorization to Change the Articles of Incorporation)

Article 149 (1) A Financial Instruments Exchange must obtain the authorization of the Prime Minister if it seeks to change its articles of incorporation, operational rules, or brokerage contract rules.

(2) If a particular set forth in Article 81, paragraph (1), item (ii) or (iii) changes, the Financial Instruments Exchange must notify the Prime Minister of this without delay. The same applies if the rules of a Financial Instruments Exchange (excluding the articles of incorporation, operational rules, and brokerage contract rules, and business rules for providing Financial Instruments Debt Assumption Services under Article 156-19, paragraph (1) approval) are prepared, if they change, or if they are discontinued, or if all business conducted with the authorization referred to in the proviso to Article 87-2, paragraph (1) is discontinued.

(Dismissal of Officers)

Article 150 (1) If the Prime Minister discovers that a person has become the officer of a Financial Instruments Exchange by wrongful means, or if the officer of a Financial Instruments Exchange violates a law or regulation, the articles of incorporation, or a disposition by a government agency which is based on a law or regulation, the Prime Minister may order the Financial Instruments Exchange to dismiss that officer.

(2) The provisions of the preceding paragraph apply mutatis mutandis to self-regulatory organizations' officers and members of self-regulatory committees.

(Collection of Reports and Inspections)

Article 151 Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a Financial Instruments Exchange, its Subsidiary Company, an Issuer of Securities listed on a Financial Instruments Exchange, or the person that a Financial Instruments Exchange has entrusted with its business, to submit reports or materials that should serve as a reference with regard to the business or assets of the Financial Instruments Exchange or its Subsidiary Company, or may have the relevant officials inspect the state of the business or assets, or the books and documents or any other articles, of a Financial Instruments Exchange, its Subsidiary Company, or the person that a Financial Instruments Exchange has entrusted with its business (but may only have the relevant officials inspect a Subsidiary Company or the person that a Financial Instruments Exchange has entrusted with its business as is necessary in connection with the business or assets of the Financial Instruments Exchange).

(Supervisory Measures for Financial Instruments Exchanges)

Article 152 (1) If a Financial Instruments Exchange falls under a case specified in one of the following items and the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may issue the disposition provided for in the relevant item:

(i) if it violates a law or regulation, a disposition by a government agency which is based on a law or regulation, a condition attached to the authorization referred to in the proviso to Article 87-2, paragraph (1) or in the proviso to Article 87-3, paragraph (1), or the articles of incorporation or any other rules; or, even though a Member, etc. or an Issuer of Securities listed by a Financial Instruments Exchange has violated a law or regulation, a disposition by a government agency which is based on a law or regulation, or the Financial Instruments Exchange's articles of incorporation, operational rules, brokerage contract rules, or any other rules (hereinafter referred to as "Laws and Regulations, etc." in this item), or has engaged in an act that is contrary to the principle of good faith in transactions as specified in the articles of incorporation or any other rules, the Financial Instruments Exchange fails to exercise the powers accorded it under this Act, an order based on this Act, or its articles of incorporation or any other rules, or to take any other necessary measures to cause the person to observe the Laws and Regulations, etc. or the principle of good faith in transactions: rescinding the license referred to in Article 80, paragraph (1), ordering the suspension of all or a part of its business activities during a fixed period of no longer than one year, ordering a change in its business activities, issuing an order prohibiting a part of its business activities, ordering the dismissal

- of its officers, or ordering the Financial Instruments Exchange to take the necessary measures specified in the articles of incorporation or any other rules;
- (ii) if the conduct of the Financial Instruments Exchange, or the status of purchase and sales of Securities or Market Transactions of Derivatives on a Financial Instruments Exchange Market operated by the Financial Instruments Exchange, is found to be harmful to the public interest or to the protection of investors: ordering the suspension of all or a part of purchase and sales of Securities or Market Transactions of Derivatives on the Financial Instruments Exchange Market during a fixed period of no longer than 10 days, or, subject to a cabinet decision, ordering the suspension of all or a part of its business during a fixed period of no longer than three months;
  - (iii) if the business it conducts after obtaining authorization pursuant to the proviso to Article 87-2, paragraph (1) is found likely to impair confidence in the public nature of the business of a Financial Instruments Exchange or likely to impair the sound and appropriate operation in the business of operating, etc. a Financial Instruments Market (meaning the operation of a Financial Instruments Exchange Market and business incidental thereto; the same applies in the following item), or the Financial Instruments Exchange violates the conditions attached to the authorization referred to in the proviso to that paragraph: rescinding the authorization referred to in the proviso to that paragraph; or
  - (iv) if the conduct of its Subsidiary Company that has obtained authorization pursuant to the proviso to Article 87-3, paragraph (1) is found likely to impair confidence in the public nature of the business of the Financial Instruments Exchange or likely to impair the sound and appropriate operation in the Financial Instruments Exchange's business of operating, etc. a Financial Instruments Market, or the Subsidiary Company violates the conditions attached to the authorization referred to in the proviso to that paragraph: rescinding the authorization referred to in the proviso to that paragraph.
- (2) Irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, before seeking to order the suspension of all or a part of business activities, to order a change in business activities, to issue an order prohibiting a part of business activities, or to issue an order to take any necessary measures that are specified in the articles of incorporation or any other rules pursuant to item (i) of the preceding paragraph, the Prime Minister must conduct a hearing.
- (3) No appeal under the Administrative Appeal Act may be entered against a disposition under the provisions of paragraph (1), item (ii) of this Article.

(Business Improvement Orders)

Article 153 If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors as concerns a Financial Instruments Exchange's articles of incorporation, operational rules, brokerage contract rules, other rules, or its trade practices, or as concerns its business operations or the state of its assets, the Prime Minister, within the scope of this necessity, may order the Financial Instruments Exchange to change its articles of incorporation, operational rules, brokerage contract rules, other rules, or its trade practices, or to take measures that are necessary from a supervisory perspective. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.

(Rescission of Authorization)

Article 153-2 If Self-Regulatory Services entrusted under Article 85, paragraph (1) authorization fall under one of the following items, the Prime Minister may rescind the Entrusting Financial Instruments Exchange's Article 85, paragraph (1) authorization, order it to change the method of entrustment, prohibit part or all of that entrustment, or order it to take measures that are necessary from a supervisory perspective:

- (i) the entrustment agreement is found to be insufficient for ensuring appropriate implementation of Self-Regulatory Services by the Entrusted Self-Regulatory Organization; or
- (ii) the Self-Regulatory Services by the Entrusted Self-Regulatory Organization are otherwise found to be inappropriate in terms of the status of performance of the Self-Regulatory Services.

(Changes to an Entrustment Agreement)

Article 153-3 If a particular set forth in Article 85-2, paragraph (1), item (iii) changes, the Financial Instruments Exchange that has obtained the authorization referred to in Article 85, paragraph (1) must notify the Prime Minister of this without delay. The same applies if the content of the entrustment agreement with the Entrusted Self-Regulatory Organization changes.

(Application of Supervisory Provisions to Self-Regulatory Organizations)

Article 153-4 The provisions of Articles 148; 149; 150, paragraph (1); and Articles 151 to 153 inclusive apply mutatis mutandis to the supervision of a self-regulatory organization that provides Self-Regulatory Services for a Financial Instruments Exchange with which it is entrusted by the Financial Instruments Exchange based on the authorization referred to in Article 85,

paragraph (1). The necessary technical replacement of terms for such a case is specified by Cabinet Order.

## **Section 6 Miscellaneous Provisions**

(Notice of the Commencement of Bankruptcy Proceedings)

Article 154 If an order to commence bankruptcy proceedings or an order to terminate bankruptcy proceedings is issued with regard to a Financial Instruments Exchange, or if the rescission of an order to commence bankruptcy proceedings, or an order to discontinue bankruptcy proceedings, becomes final and binding with regard to a Financial Instruments Exchange, the court clerk must notify the Prime Minister of this.

(Delegation to Cabinet Office Ordinance)

Article 154-2 Procedures for the implementation of the provisions of Article 80 to the preceding Article inclusive and particulars that are otherwise necessary for their implementation are specified by Cabinet Office Ordinance.

## **Chapter V-2 Foreign Financial Instruments Exchanges** **Section 1 General Provisions**

(Authorization)

Article 155 (1) Notwithstanding the provisions of Article 29 and Article 80, paragraph (1), with the authorization of the Prime Minister, the operator of a foreign Financial Instruments Market may allow the persons set forth in the following items to effect purchase and sales of Securities and Foreign Market Transactions of Derivatives on the foreign Financial Instruments Market (with regard to the person set forth in item (ii), this is limited to transactions involving the services of a registered financial institution) through a connection between its electronic data processing system and the input and output devices used by those persons (hereinafter referred to as the "Input and Output Devices Connected to a Foreign Financial Instruments Exchange"):

- (i) a Financial Services Provider; and
- (ii) a registered financial institution.

(2) The provisions of Article 30-2 apply mutatis mutandis to the authorization referred to the preceding paragraph.

(Application for Authorization)

Article 155-2 (1) A person seeking the authorization referred to in paragraph (1) of the preceding Article must designate a domestic representative and submit a written application for authorization to the Prime Minister, in which it states

the following particulars:

- (i) its trade name or name;
  - (ii) the location of its head office or principle office;
  - (iii) the location of its office in Japan, if any;
  - (iv) the titles and names of its officers;
  - (v) the name and domestic address of its domestic representative;
  - (vi) the types and names of the foreign Financial Instruments Markets in which the participants in the Foreign Financial Instruments Exchange (meaning the persons that effect purchase and sales of Securities and Foreign Market Transactions of Derivatives on the foreign Financial Instruments Market, using Input and Output Devices Connected to the Foreign Financial Instruments Exchange (hereinafter each such transaction is referred to as a "Foreign Market Transaction"); the same applies hereinafter) conduct Foreign Market Transactions;
  - (vii) the trade names or names of participants in the Foreign Financial Instruments Exchange; and
  - (viii) other matters specified by Cabinet Office Ordinance.
- (2) The following documents must accompany the written application for authorization referred to in the preceding paragraph:
- (i) the articles of incorporation, as well as the operational rules and brokerage contract rules for Foreign Market Transactions (including anything equivalent to these; hereinafter collectively referred to as the "Operational Regulations" in this Chapter);
  - (ii) documents stating the things specified by Cabinet Office Ordinance as constituting the business outline and business methods as relates to Foreign Market Transactions; and
  - (iii) other documents specified by Cabinet Office Ordinance.

(Examination Criteria for Authorization)

Article 155-3 (1) Whenever an application for authorization under paragraph (1) of the preceding Article is filed, the Prime Minister shall examine whether the application conforms to the following criteria:

- (i) the applicant for authorization has obtained the same kind of license as that referred to in Article 80, paragraph (1) or has obtained permission or any other administrative disposition similar to such a license in the state where its head office or principle office is located;
- (ii) the applicant for authorization is able to take the necessary measures to cause a participant in the Foreign Financial Instruments Exchange which has violated a law or regulation, a disposition by a government agency which is based on a law or regulation (hereinafter referred to as "Laws and Regulations, etc." in this item and Article 155-10), or the Operational

- Regulations, observe the Laws and Regulations, etc. or Operational Regulations; and
- (iii) the Operational Regulations of the applicant for authorization are sufficient for ensuring that the Foreign Market Transactions that the participants in the Foreign Financial Instruments Exchange conduct are fair and smooth, and for protecting investors.
- (2) If, as a result of having conducted an examination pursuant to the provisions of the preceding paragraph, the Prime Minister finds that an application conforms to the criteria in that paragraph, the Prime Minister shall grant the authorization, except in a case that falls under one of the following items:
- (i) the applicant for authorization is a person that has yet to have the period specified by Cabinet Order pass since the establishment of the foreign Financial Instruments Market in which participants in the Foreign Financial Instruments Exchange conduct Foreign Market Transactions (unless this falls under a case specified by Cabinet Order);
  - (ii) the applicant for authorization is a person that has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of this Act or for violating the provisions of a foreign law or regulation that is equivalent to this Act, and five years have yet to pass since the day on which the person finished serving the sentence or ceased to be subject to its enforcement;
  - (iii) the applicant for authorization is a person that has had the authorization referred to in Article 155, paragraph (1) rescinded pursuant to the provisions of Article 155-6 or Article 155-10, paragraph (1); has had the license referred to in Article 156-20-2 rescinded pursuant to the provisions of Article 156-20-14, paragraph (1) or (2); has had the registration referred to in Article 29 or Article 33-2 rescinded pursuant to the provisions of Article 52, paragraph (1) or (4), Article 52-2, paragraph (1) or (3), Article 53, paragraph (3), Article 54, or Article 57-6, paragraph (3); has had the permission referred to in Article 60, paragraph (1) rescinded pursuant to the provisions of Article 60-8, paragraph (1) or Article 60-9, paragraph (1); has had the registration referred to in Article 66 rescinded pursuant to the provisions of Article 66-20, paragraph (1); has had the registration referred to in Article 66-27 rescinded pursuant to the provisions of Article 66-42, paragraph (1) or (3); or is a person that had obtained a registration or license of the same kind as the registration referred to in Article 29, Article 66, or Article 66-27 or the license referred to in Article 80, paragraph (1), Article 156-2, or Article 156-24, paragraph (1) in the state where its head office or principle office is located (including permission or any other administrative disposition similar to such a registration or license), but that has had that registration or license rescinded; and five years have yet to pass since the date of the

rescission;

- (iv) the applicant for authorization has a person falling under one of the categories in Article 82, paragraph (2), item (iii), sub-item (a), (b), or (e) as an officer or domestic representative;
- (v) the authority responsible for the enforcement of the foreign laws or regulations that are equivalent to this Act in the state where the head office or principal office of the Applicant for authorization is located has not given the assurance prescribed in Article 189, paragraph (2), item (i) or done anything else that is found to be equivalent to such assurance; and
- (vi) the written application for authorization or a document that is required to accompany it contains a false statement about a material particular.

(Refusal of Authorization)

- Article 155-4 (1) If an application for authorization under the provisions of Article 155-2, paragraph (1) is filed and the Prime Minister finds it inappropriate to grant that authorization, the Prime Minister shall notify the Applicant for authorization and have the relevant officials conduct a hearing.
- (2) Upon deciding to grant or not to grant the authorization under the provisions of Article 155, paragraph (1), the Prime Minister shall notify the applicant for authorization of this in writing without delay.

(Submission of Business Reports)

- Article 155-5 Pursuant to the provisions of Cabinet Office Ordinance, a Foreign Financial Instruments Exchange shall prepare a business report on the Foreign Market Transactions effected during the period from April of each year to March of the subsequent year and submit the same to the Prime Minister within three months after the end of that period.

## **Section 2 Supervision**

(Rescission of Authorization)

- Article 155-6 If a Foreign Financial Instruments Exchange is discovered to have fallen under one of the categories in the items of Article 155-3, paragraph (2) at the time of it obtained the Article 155, paragraph (1) authorization, the Prime Minister may rescind its authorization.

(Notification of a Change)

- Article 155-7 If a particular set forth in one of the items of Article 155-2, paragraph (1) changes; if the business outline or business methods that a Foreign Financial Instruments Exchange has stated in a document set forth in Article 155-2, paragraph (2), item (ii) changes; if there is a material change in

Operational Regulations; or in a case specified by Cabinet Office Ordinance, the Foreign Financial Instruments Exchange must notify the Prime Minister of this within two weeks from the day of the change.

(Lapse of Authorization)

Article 155-8 (1) If a Foreign Financial Instruments Exchange falls under one of the following items, its Article 155, paragraph (1) authorization ceases to be valid:

- (i) it comes to have no participants in the Foreign Financial Instruments Exchange which effect Foreign Market Transactions;
- (ii) it closes all its foreign Financial Instruments Markets in which Foreign Market Transactions are effected; and
- (iii) it is dissolved.

(2) If authorization ceases to be valid pursuant to the provisions of the preceding paragraph, the domestic representative or the former domestic representative of the Foreign Financial Instruments Exchange must notify the Prime Minister of this without delay.

(Collection of Reports and Inspections)

Article 155-9 Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a Foreign Financial Instruments Exchange, Foreign Financial Instruments Exchange Participant, or a person that the relevant Foreign Financial Instruments Exchange has entrusted with its business, to submit reports or materials that should serve as a reference with regard to Foreign Market Transactions, or may have the relevant officials inspect the state of the business, or documents and other articles, of the relevant Foreign Financial Instruments Exchange in connection to its Foreign Market Transactions.

(Supervisory Measures for Foreign Financial Instruments Exchanges)

Article 155-10 (1) If a Foreign Financial Instruments Exchange falls under one of the cases in the following items and the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may rescind the Foreign Financial Instruments Exchange's Article 155, paragraph (1) authorization, order the suspension of all or a part of Foreign Market Transactions during a fixed period of no longer than six months, order a change in the business activities linked to Foreign Market Transactions, or issue an order prohibiting a part of the business activities linked to Foreign Market Transactions:

- (i) it becomes unable to satisfy the criteria set forth in the items of Article 155-

- 3, paragraph (1);
- (ii) it comes to fall under Article 155-3, paragraph (2), items (ii) to (v) inclusive;
  - (iii) it violates the conditions attached to the authorization;
  - (iv) it violates Laws and Regulations, etc. or the Operational Regulations, or, even though a participant in the Foreign Financial Instruments Exchange acts in violation of Laws and Regulations, etc. or the Operational Regulations, the Foreign Financial Instruments Exchange fails to exercise the powers accorded to it or to take any other necessary measures to cause the participant in the Foreign Financial Instruments Exchange to observe the Laws and Regulations, etc. or the Operational Regulations; or
  - (v) the actions of the Foreign Financial Instruments Exchange or the status of Foreign Market Transactions on the foreign Financial Instruments Market it operates is found to be harmful for the public interest or to the protection of investors.
- (2) If the domestic representative of a Foreign Financial Instruments Exchange (if a Foreign Financial Instruments Exchange has a domestic office, this includes any officer stationed there; hereinafter the same applies in this paragraph) violates the Laws and Regulations, etc., the Prime Minister may order the Foreign Financial Instruments Exchange to dismiss that domestic representative.
- (3) Irrespective the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, before seeking to order the suspension of all or a part of Foreign Market Transactions, order a change in the business activities linked to Foreign Market Transactions, or issue an order prohibiting a part of the business activities linked to Foreign Market Transactions, under paragraph (1), the Prime Minister must conduct a hearing.

### **Section 3 Miscellaneous Provisions**

Article 156 Procedures for the implementation of the provisions of Article 155 to the preceding Article inclusive and particulars that are otherwise necessary for their implementation are specified by Cabinet Office Ordinance.

## **Chapter V-3 Financial Instruments Clearing Organizations, etc.**

### **Section 1 Financial Instruments Clearing Organizations**

(License)

Article 156-2 A person not licensed by the Prime Minister must not perform Financial Instruments Debt Assumption Services.

(License Application)

Article 156-3 (1) A person seeking to obtain the license referred to in the preceding Article must submit a written license application to the Prime Minister, in which it states the following particulars:

- (i) its trade name;
  - (ii) the amount of stated capital;
  - (iii) the names and locations of its head office and other business offices;
  - (iv) the names of the directors and company auditors (or of the directors and executive officers, if it is a company with committees);
  - (v) the names of its accounting advisors, if it is a company with accounting advisors; and
  - (vi) if it conducts business other than Financial Instruments Debt Assumption Services, the business referred to in Article 156-6, paragraph (1) (hereinafter referred to as "Financial Instruments Debt Assumption Services, etc."), or business incidental to either of these, an outline of that business.
- (2) The following documents must accompany the written license application referred to in the preceding paragraph:
- (i) a document pledging that the applicant does not fall under the purview of the requirements set forth in paragraph (2), items (ii) to (iv) inclusive of the following Article;
  - (ii) the articles of incorporation;
  - (iii) the company's certificate of registered information;
  - (iv) the business rules;
  - (v) the balance sheet and profit and loss statement;
  - (vi) documents stating expected income and expenditures;
  - (vii) a document outlining the method of securing the collateral needed to settle outstanding obligations (meaning outstanding obligations as prescribed in Article 156-11-2, paragraph (1); hereinafter the same applies in paragraph (1), item (iv) of the following Article) and other arrangements for settling them, and outlining the facilities, staff, and other systems for performing such settlement operations; and
  - (viii) in addition to what is set forth in the preceding items, documents specified by Cabinet Office Ordinance.
- (3) In the case referred to in the preceding paragraph, if the articles of incorporation or a balance sheet has been prepared as an electronic or magnetic record or an electronic or magnetic record has been prepared for a profit and loss statement in lieu of a written document, such electronic or magnetic record (limited to one specified by Cabinet Office Ordinance) may accompany the written license application in lieu of written documents.

(Licensing Examination Criteria)

- Article 156-4 (1) Whenever a license application under the provisions of paragraph (1) of the preceding Article is filed, the Prime Minister shall examine whether the application conforms to the following criteria:
- (i) the provisions of the articles of incorporation and business rules conform to laws and regulations and are sufficient to allow Financial Instruments Debt Assumption Services to be performed properly and reliably;
  - (ii) the applicant has a sufficient financial basis to soundly perform Financial Instruments Debt Assumption Services, and has good prospects in terms of expected income and expenditures in connection with Financial Instruments Debt Assumption Services; and
  - (iii) in light of its personnel structure, the Applicant has sufficient knowledge and experience to perform Financial Instruments Debt Assumption Services properly and reliably, and has sufficient social credibility.
  - (iv) the applicant has an adequately developed structure and system for properly securing collateral to allocate for settling outstanding obligations, for managing highly reliable facilities in order to facilitate such settlement, and for otherwise executing such settlement properly and reliably.
- (2) If, as a result of having conducted an examination pursuant to the provisions of the preceding paragraph, the Prime Minister finds that an application conforms to the criteria in that paragraph, the Prime Minister shall grant the license, except in a case that falls under one of the following items:
- (i) the license applicant is not a stock company (meaning a stock company that has the following organs):
    - (a) a board of directors; or
    - (b) company auditors or committees.
  - (ii) the license applicant is a company that has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of this Act or for violating the provisions of a foreign law or regulation that is equivalent to this Act, and five years have yet to pass since the day on which it finished serving the sentence or ceased to be subject to its enforcement;
  - (iii) the license applicant is a company that has had its license rescinded pursuant to the provisions of Article 148, Article 152, paragraph (1), Article 156-17, paragraph (1) or (2), Article 148 as applied mutatis mutandis pursuant to Article 156-26, or Article 156-32, paragraph (1); has had its registration rescinded pursuant to the provisions of Article 52, paragraph (1), Article 53, paragraph (3), Article 57-6, paragraph (3), Article 66-20, paragraph (1), or Article 66-42, paragraph (1); has had its authorization rescinded pursuant to the provisions of Article 106-7, paragraph (1), Article 106-21, paragraph (1), Article 106-28, paragraph (1), or Article 156-5-9, paragraph (1); or is a company that had obtained a license or registration of

the same kind in a foreign state pursuant to the provisions of a foreign law or regulation that is equivalent to this Act (including permission or any other administrative disposition similar to such a license or registration), but it has had that license or registration rescinded; and five years have yet to pass since the date of the rescission;

- (iv) the license applicant is a company that has a person falling under one of the categories in Article 82, paragraph (2), item (iii), sub-items (a) to (f) inclusive as a director, accounting advisor, company auditor, or executive officer; or
- (v) the written license application or a document or electronic or magnetic record that is required to accompany it contains a false statement or false record about a material particular.

(Refusal of a License)

Article 156-5 (1) If a license application under the provisions of Article 156-3, paragraph (1) is filed and the Prime Minister finds it inappropriate to grant that license, the Prime Minister shall notify the license applicant and have the relevant officials conduct a hearing.

(2) Upon deciding to grant or not to grant the license referred to in Article 156-2, the Prime Minister shall notify the license applicant of this in writing without delay.

(Amount of Stated Capital)

Article 156-5-2 The stated capital of a Financial Instruments Clearing Organization (other than a Financial Instruments Clearing Organization that is a Financial Instruments Exchange; hereinafter the same applies in the following Article; Article 156-5-5, paragraphs (1) to (5) inclusive; Article 156-5-6, paragraph (1); Article 156-5-8; Article 156-5-9, paragraphs (1) and (2); Article 156-5-10, paragraph (2); Article 156-6, paragraphs (2) and (3); Article 156-12-2 to Article 156-14 inclusive; and Article 156-17, paragraph (1)) must be at least the amount specified by Cabinet Order.

(Submission of a Statement of Holdings in Subject Voting Rights)

Article 156-5-3 (1) A person that becomes the holder of voting rights (including voting rights in respect of shares that cannot be asserted against the Issuer pursuant to the provisions of Article 147, paragraph (1) or Article 148, paragraph (1) of the Act on the Book-Entry Transfer of Corporate Bonds, Shares, etc., excluding voting rights that are specified by Cabinet Office Ordinance in consideration of the manner in which they are acquired or held and other circumstances; hereinafter referred to as "Subject Voting Rights" in this Section) exceeding five percent of all shareholders' voting rights in a

Financial Instruments Clearing Organization, must submit a statement of holdings in Subject Voting Rights to the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance and without delay, in which the person states the ratio arrived at by dividing the number of Subject Voting Rights held by the number that represents all shareholders' voting rights in the Financial Instruments Clearing Organization, and states the purpose of the holdings and the particulars of the Subject Voting Rights that are otherwise specified by Cabinet Office Ordinance.

- (2) With regard to the application of the provisions of the preceding paragraph in a case set forth in one of the following items, the relevant person is deemed to hold the Subject Voting Rights specified in the relevant item:
- (i) if a person has the authority to exercise Subject Voting Rights in a Financial Instruments Clearing Organization or the authority to give instructions on the exercise of such voting rights based on the provisions of a money trust contract or other contract or based on the provisions of law: the Subject Voting Rights in question; and
  - (ii) a person that is related to the person in question through a shareholding relationship, familial relationship, or other special relationship specified by Cabinet Order, holds Subject Voting Rights in a Financial Instruments Clearing Organization: the Subject Voting Rights held by the person with the special relationship to the person in question.

(Collection of Reports and Inspection of a Person Submitting a Statement of Holdings in Subject Voting Rights)

Article 156-5-4 If the Prime Minister suspects that a statement of holdings in Subject Voting Rights referred to in paragraph (1) of the preceding Article contains a false statement or omits a statement as to a particular that is required to be stated, the Prime Minister may order the person submitting that statement of holdings in Subject Voting Rights to submit reports or materials that should serve as a reference, or may have the relevant officials inspect the documents and other articles of that person (but only as is necessary in connection with what is stated in the statement of holdings in Subject Voting Rights).

(Authorization, etc. as a Major Shareholder)

Article 156-5-5 (1) A person seeking to acquire or hold a number of Subject Voting Rights that constitutes 20 percent or more (or 15 percent or more, if a fact has occurred that is specified by Cabinet Office Ordinance as something that is presumed to have a material influence on decisions about financial and operational policies; hereinafter referred to as the "Threshold Holding Ratio" in this Section) of all shareholders' voting rights in a Financial Instruments

Clearing Organization or a person seeking to incorporate as a company or other corporation with the intention to acquire or hold a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights in a Financial Instruments Clearing Organization, must obtain the authorization of the Prime Minister before doing so.

- (2) If the number of Subject Voting Rights that the person holds does not increase or in any other case specified by Cabinet Office Ordinance, the provisions of the preceding paragraph do not apply to a person acquiring or holding a number of Subject Voting Rights in a Financial Instruments Clearing Organization which is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights.
- (3) In the case referred to in the preceding paragraph, the person that has come to acquire or hold a number of Subject Voting Rights in a Financial Instruments Clearing Organization which is equal to or greater than the Threshold Holding Ratio of all shareholders' voting rights (hereinafter referred to as a "Specified Holder" in this Article) shall notify the Prime Minister without delay that it has become a Specified Holder and of any other matters specified by Cabinet Office Ordinance.
- (4) In the case referred to in paragraph (2), a Specified Holder must take the necessary measures to become the holder of a number of Subject Voting Rights in a Financial Instruments Clearing Organization which is less than the Threshold Holding Ratio within three months from the day on which the person becomes a Specified Holder; provided, however, that this does not apply if the Specified Holder obtains the authorization of the Prime Minister.
- (5) When a Specified Holder becomes the holder of a number of Subject Voting Rights in a Financial Instruments Clearing Organization which is less than the Threshold Holding Ratio, the holder must notify the Prime Minister of this without delay.
- (6) The provisions of Article 30-2 apply mutatis mutandis to the authorization referred to in paragraph (1) and in the proviso to paragraph (4).

(Criteria for Authorization as a Major Shareholder)

Article 156-5-6 (1) Whenever an application is filed for the authorization referred to in paragraph (1) of the preceding Article or in the proviso to paragraph (4) of that Article, the Prime Minister shall examine whether the application conforms to the following criteria:

- (i) the applicant for authorization's exercise of the Subject Voting Rights is not likely to impair the sound and appropriate operation of the business of the Financial Instruments Clearing Organization;
- (ii) the applicant for authorization has a sufficient understanding of the public nature of the business of a Financial Instruments Clearing Organization;

and

(iii) the applicant for authorization has sufficient social credibility.

(2) The provisions of Article 156-4, paragraph (2) (excluding item (i)) apply mutatis mutandis to the authorization referred to in paragraph (1) and in the proviso to paragraph (4) of the preceding Article. In this case, in Article 156-4, paragraph (2), the phrase "the preceding paragraph" is deemed to be replaced with "Article 156-5-6, paragraph (1)", the phrase "Article 156-17, paragraph (1) or (2)" is deemed to be replaced with "Article 156-17, paragraph (1) or (2); Article 156-20-14, paragraph (1) or (2)", the phrase "Article 106-28, paragraph (1)" is deemed to be replaced with "Article 106-28, paragraph (1); Article 155-6; Article 155-10, paragraph (1)"; and any other necessary technical replacement of terms is specified by Cabinet Order.

(Hearing When Authorization Is Not Granted)

Article 156-5-7 (1) If an application is filed for the authorization referred to in the provisions of Article 156-5-5, paragraph (1) or in the proviso to paragraph (4) of that Article and the Prime Minister finds it inappropriate to grant that authorization, the Prime Minister shall notify the applicant for authorization and have the relevant officials conduct a hearing.

(2) Upon deciding to grant or not to grant the authorization under the provisions of Article 156-5-5, paragraph (1) or the proviso to paragraph (4) of that Article, the Prime Minister shall notify the applicant for authorization of the in writing without delay.

(Collection of Reports and Inspection of a Major Shareholder)

Article 156-5-8 Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order the major shareholder of a Financial Instruments Clearing Organization (meaning a person that holds a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio, in a Financial Instruments Clearing Organization that has been incorporated after obtaining Article 156-5-5, paragraph (1) authorization or that has obtained the authorization referred to in that paragraph or in the proviso to paragraph (4) of that Article; hereinafter the same applies in this Section) to submit reports or materials that should serve as a reference in connection with the business or assets of the Financial Instruments Clearing Organization, and may have the relevant officials inspect the documents and other articles of such a major shareholder (but only as is necessary in connection with the business or assets of the Financial Instruments Clearing Organization).

(Supervisory Measures for Major Shareholders)

Article 156-5-9 (1) If the major shareholder of a Financial Instruments Clearing Organization violates a law or regulation, or if it is found that the conduct of a major shareholder is likely to impair the sound and appropriate operation of the business of the Financial Instruments Clearing Organization, the Prime Minister may rescind the major shareholder's Article 156-5-5, paragraph (1) authorization or the authorization referred to in the proviso to paragraph (4) of that Article, or order the major shareholder to take measures that are necessary from a supervisory perspective.

(2) A person that has the authorization referred to in Article 156-5-5, paragraph (1) or in the proviso to paragraph (4) of that Article rescinded pursuant to the provisions of the preceding paragraph must take the necessary measures to become the holder of a number of Subject Voting Rights in a Financial Instruments Clearing Organization which is less than the Threshold Holding Ratio, within three months from the day that the authorization is rescinded.

(3) Irrespective the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, before seeking to order the necessary measures pursuant to the provisions of paragraph (1), the Prime Minister must conduct a hearing.

(Lapse of Authorization as a Major Shareholder)

Article 156-5-10 (1) If a person that has obtained Article 156-5-5, paragraph (1) authorization does not become the holder of a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio within six months from the day on which that person obtains the authorization, or does not incorporate as a company or other corporation that holds a number of Subject Voting Rights that is equal to or greater than the Threshold Holding Ratio, that authorization ceases to be valid. In such a case, the person that obtained the authorization must notify the Prime Minister of this without delay.

(2) If the major shareholder of a Financial Instruments Clearing Organization has become the holder of a number of Subject Voting Rights that is less than the Threshold Holding Ratio, the authorization referred to in Article 156-5-5, paragraph (1) or in the proviso to paragraph (4) of that Article ceases to be valid. In such a case, the person that was formerly a major shareholder must notify the Prime Minister of this without delay.

(Mutatis Mutandis Application of Provisions Regarding Subject Voting Rights)

Article 156-5-11 The provisions of Article 156-5-3, paragraph (2) apply mutatis mutandis if the provisions of Article 156-5-5, paragraphs (1) to (5) inclusive; Article 156-5-6, paragraph (1); Article 156-5-8; Article 156-5-9, paragraph (2); and the preceding Article are applicable. In this case, in Article 156-5-3, paragraph (2), the term "hold" is deemed to be replaced with "acquire or hold",

and in item (i) of that paragraph, the term "has" is deemed to be replaced with "has, or will have".

(Restriction on Business)

Article 156-6 (1) Pursuant to the provisions of its business rules, a Financial Instruments Clearing Organization, in the course of trade, may take over, novate, or in any other way bear the obligations of a person other than a Business Counterparty to Financial Instruments Debt Assumption Services (meaning a Business Counterparty to Financial Instruments Debt Assumption Services as prescribed in Article 2, paragraph (28); hereinafter the same applies in this paragraph) which arise from a subject transaction (meaning a subject transaction as prescribed in Article 2, paragraph (28); hereinafter the same applies in this Chapter) effected by a person other than a Business Counterparty to Financial Instruments Debt Assumption Services.

(2) A Financial Instruments Clearing Organization may not conduct business other than Financial Instruments Debt Assumption Services, etc. and business incidental thereto; provided, however, that this does not apply if the Financial Instruments Clearing Organization obtains the approval of the Prime Minister pursuant to the provisions of Cabinet Office Ordinance, for business related to Financial Instruments Debt Assumption Services or Commodity Transaction Debt Assumption Services, etc. (meaning Commodity Transaction Debt Assumption Services, etc. as prescribed in Article 170, paragraph (2) of the Commodity Futures Act; the same applies hereinafter) and business incidental thereto which is found to carry no risk of compromising the Financial Instruments Clearing Organization's proper and reliable performance of Financial Instruments Debt Assumption Services.

(3) If a Financial Instruments Clearing Organization discontinues the business for which it has obtained the approval referred to in the proviso to the preceding paragraph, it must notify the Prime Minister of this pursuant to the provisions of Cabinet Office Ordinance.

(4) The Prime Minister may attach conditions to the approval referred to in the proviso to paragraph (2).

(5) The conditions referred to in the preceding paragraph must constitute the minimum level of conditions that are necessary for the public interest and the protection of investors.

(Business Rules)

Article 156-7 (1) A Financial Instruments Clearing Organization must conduct its business pursuant to the provisions of its business rules.

(2) The following matters must be specified in the business rules:

(i) that the business set forth in paragraph (1) of the preceding Article is

- conducted, if applicable;
- (ii) the transactions giving rise to obligations that are subject to Financial Instruments Debt Assumption Services (or, if the business set forth in paragraph (1) of the preceding Article is conducted, Financial Instruments Debt Assumption Services, etc.; hereinafter the same applies in this paragraph, Article 156-10 and Article 156-11-2, paragraph (1));
  - (iii) the particulars of the requirements for becoming the counterparty to the Financial Instruments Debt Assumption Services (hereinafter referred to as a "Clearing Member");
  - (iv) the particulars of the taking over, novating, or other bearing of obligations that the clearing organization performs as Financial Instruments Debt Assumption Services, and the particulars of the performance of such obligations;
  - (v) the particulars involved in ensuring the performance of the obligations of a Clearing Member;
  - (vi) the particulars of Brokerage for the Clearing of Securities, etc.;
  - (vii) if collaborative Financial Instruments Debt Assumption Services (meaning collaborative Financial Instruments Debt Assumption Services as prescribed in Article 156-20-16, paragraph (1); hereinafter the same applies in this item) are performed, the particulars of the collaborative Financial Instruments Debt Assumption Services; and
  - (viii) other matters specified by Cabinet Office Ordinance.

(Duty of Confidentiality)

Article 156-8 (1) It is prohibited for the officer (or, if an officer is a corporation, the person that performs those duties) or employee of a Financial Instruments Clearing Organization, or for a person that has held one of these positions, to divulge or misappropriate any secret learned in connection with the business of that organization.

(2) It is prohibited for the officer (or, if an officer is a corporation, the person that performs those duties) or employee of a Financial Instruments Clearing Organization, or for a person that has held one of these positions, to utilize information learned in the course of duty for a purpose other than the business uses of the Financial Instruments Clearing Organization for which the information is provided.

(Prohibition on Unfairly Differential Treatment)

Article 156-9 A Financial Instruments Clearing Organization must not subject any particular Clearing Member to unfairly differential treatment.

(Measures to Ensure the Proper Performance of Financial Instruments Debt

Assumption Services)

Article 156-10 A Financial Instruments Clearing Organization must take measures to ensure the proper performance of Financial Instruments Debt Assumption Services, such as stipulating in its business rules that if a loss is incurred due to Financial Instruments Debt Assumption Services, a Clearing Member bears all of that loss.

(Clearing Deposit)

Article 156-11 If a Financial Instruments Clearing Organization makes provisions in its business rules for a Clearing Deposit (meaning money or other property (limited to that which is specified by Cabinet Office Ordinance) deposited with a Financial Instruments Clearing Organization by a Clearing Member as collateral against the performance of obligations; hereinafter the same applies in this Article), and a Clearing Member causes damage to the Financial Instruments Clearing Organization by defaulting on an obligation, the Financial Instruments Clearing Organization that incurs the damage has the right to receive payment from the Clearing Deposit that has been deposited by the Clearing Member that caused the damage, in preference over other creditors

(Procedures at the Commencement of Special Liquidation Proceedings)

Article 156-11-2 (1) If a Financial Instruments Clearing Organization makes provisions in its business rules for the method of netting off outstanding obligations (meaning obligations which have arisen from subject transactions, etc. (meaning a subject transactions, Transactions on a Commodity Market (meaning Transactions on a Commodity Market as defined in Article 2, paragraph (10) of the Commodity Futures Act), or Over-the-Counter Commodity Derivatives Transactions (meaning Over-the-Counter Commodity Derivatives Transactions as defined in paragraph (14) of that Article); hereinafter the same applies in this Article) that a Clearing Member has effected, and which the clearing organization has taken over from the other parties to the subject transactions or has novated or in any other way borne as Financial Instruments Debt Assumption Services or Commodity Transaction Debt Assumption Services, etc.; claims (limited to claims with the same contents as such obligations) that the clearing organization has acquired against such a Clearing Member as the consideration for the obligations which have arisen out of subject transactions, etc. and which the clearing organization has borne for that Clearing Member; and collateral; hereinafter the same applies in this paragraph), the method of allocating collateral to cover outstanding obligations, or other means of settling outstanding obligations, and special liquidation proceedings, bankruptcy proceedings, rehabilitation

proceedings, or reorganization proceedings commence for a Clearing Member, the calculation of the amount of the claim that the Financial Instruments Clearing Organization or the Clearing Member has in terms of outstanding obligations and other means of settlement in relation to these proceedings, are to be in accordance with the provisions of the business rules.

(2) In bankruptcy proceedings, rehabilitation proceedings, or reorganization proceedings, the claims provided for in the preceding paragraph which a Financial Instruments Clearing Organization has are bankruptcy claims, rehabilitation claims, or reorganization claims, and the claims provided for in that paragraph which a Clearing Member has are the property that is part of the bankruptcy estate, rehabilitation debtor's assets, the property of the corporation in need of reorganization, or the property of the cooperative financial institution in need of reorganization.

(Authorization to Change the Articles of Incorporation or Business Rules)

Article 156-12 A Financial Instruments Clearing Organization must obtain the authorization of the Prime Minister if it seeks to change its articles of incorporation or business rules.

(Public Inspection of the Total Number of Issued Shares)

Article 156-12-2 A Financial Instruments Clearing Organization must make its total number of issued shares, the number that represents all shareholders' voting rights and other matters specified by Cabinet Office Ordinance available for public inspection, pursuant to the provisions of Cabinet Office Ordinance.

(Authorization to Reduce Capital)

Article 156-12-3 (1) A Financial Instruments Clearing Organization must obtain the authorization of the Prime Minister if it seeks to reduce its stated capital.

(2) A Financial Instruments Clearing Organization must notify the Prime Minister pursuant to the provisions of Cabinet Office Ordinance if it seeks to increase its stated capital.

(Notification of a Change of Business Offices)

Article 156-13 If a particular set forth in Article 156-3, paragraph (1), item (iii) to (v) inclusive changes, the Financial Instruments Clearing Organization must notify the Prime Minister of this, pursuant to the provisions of Cabinet Office Ordinance, supplying a document specified in paragraph (2), item (i) or (iii) of that Article.

(Causes for Ineligibility as an Officer)

Article 156-14 (1) A person falling under one of the categories in Article 82,

paragraph (2), item (iii), sub-items (a) to (f) inclusive may not become the director, accounting advisor, company auditor, or executive officer of a Financial Instruments Clearing Organization.

- (2) The director, accounting advisor, company auditor, or executive officer of a Financial Instruments Clearing Organization loses that position upon coming to fall under the category of person provided for in the preceding paragraph.
- (3) If the director, accounting advisor, company auditor, or executive officer of a Financial Instruments Clearing Organization is discovered to have become a director, accounting advisor, company auditor, or executive officer by wrongful means or if the director, accounting advisor, company auditor, or executive officer of a Financial Instruments Clearing Organization violates a law or regulation or a disposition by a government agency which is based on a law or regulation, the Prime Minister may order the Financial Instruments Clearing Organization to dismiss that director, accounting advisor, company auditor, or executive officer.
- (4) The provisions of the proviso to Article 331, paragraph (2) of the Companies Act (including as applied mutatis mutandis pursuant to Article 335, paragraph (1) of that Act) and of Article 332, paragraph (2) (including as applied mutatis mutandis pursuant to Article 334, paragraph (1) of that Act); Article 336, paragraph (2); and the proviso to Article 402, paragraph (5) of that Act do not apply to Financial Instruments Clearing Organizations.

#### (Collection of Reports and Inspections)

Article 156-15 Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a Financial Instruments Clearing Organization, its Clearing Member, or the person that a Financial Instruments Clearing Organization has entrusted with its business, to submit reports or materials that should serve as a reference with regard to the business or assets of the Financial Instruments Clearing Organization, and may have the relevant officials inspect the state of the business or assets, or the books and documents or any other articles, of a Financial Instruments Clearing Organization or the person that a Financial Instruments Clearing Organization has entrusted with its business (but may only have the relevant officials inspect the person that a Financial Instruments Clearing Organization has entrusted with its business as is necessary in connection with the business or assets of the Financial Instruments Clearing Organization).

#### (Business Improvement Orders)

Article 156-16 If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors as concerns a Financial

Instruments Clearing Organization's business operations or the state of its assets, the Prime Minister, within the scope of this necessity, may order the Financial Instruments Clearing Organization to change its business outline or its business methods, or to otherwise take measures that are necessary for improving its business operations or the state of its assets.

(Rescission of a License)

Article 156-17 (1) If a Financial Instruments Clearing Organization is discovered to have fallen under one of the categories in the items of Article 156-4, paragraph (2) at the time it obtained its license, the Prime Minister may rescind the license.

(2) If a Financial Instruments Clearing Organization violates a law or regulation, a disposition by a government agency which is based on a law or regulation, or a condition attached to the approval referred to in the proviso to Article 156-6, paragraph (2) or in Article 156-19, paragraph (1), the Prime Minister may rescind the license referred to in Article 156-2 or the approval referred to in the proviso to Article 156-6, paragraph (2) or in Article 156-19, paragraph (1), order the suspension of all or a part of its business activities during a fixed period of no longer than six months, or order the dismissal of its officers.

(Authorization for Dissolution)

Article 156-18 A resolution to discontinue the Financial Instruments Debt Assumption Services of a Financial Instruments Clearing Organization or a resolution to dissolve a Financial Instruments Clearing Organization does not become effective without the authorization of the Prime Minister.

(Financial Instruments Debt Assumption Services, etc.)

Article 156-19 (1) Notwithstanding the provisions of Article 87-2, paragraph (1) and Article 156-2, a Financial Instruments Exchange may perform Financial Instruments Debt Assumption Services, etc. and business incidental thereto with the approval of the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance.

(2) Notwithstanding the provisions of Article 87-2, paragraph (1), a Financial Instruments Exchange Engaged in the Operation of a Commodity Market may perform Commodity Transaction Debt Assumption Services, etc. and business incidental thereto with the approval of the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance.

(3) If a Financial Instruments Exchange Engaged in the Operation of a Commodity Market discontinues the business for which it has obtained the authorization referred to in the preceding paragraph, it must notify the Prime Minister of this pursuant to the provisions of Cabinet Office Ordinance.

(4) The provisions of Article 156-6, paragraphs (4) and (5) apply mutatis mutandis to the approval referred to in paragraph (1) or (2).

(Rescission of Approval for the Financial Instruments Debt Assumption Services, etc. of a Financial Instruments Exchange)

Article 156-20 (1) If a Financial Instruments Exchange that obtains the approval referred to in paragraph (1) of the preceding Article falls under one of the following items, the Prime Minister may rescind the approval:

(i) it obtains the approval referred to in the preceding Article by wrongful means;

(ii) the license referred to in Article 80, paragraph (1) has been rescinded; or

(iii) it falls under one of the items of Article 134, paragraph (1).

(2) If a Financial Instruments Exchange Engaged in the Operation of a Commodity Market that has obtained the approval referred to in paragraph (2) of the preceding Article violates a law or regulation, a disposition by a government agency which is based on a law or regulation, or a condition attached to the approval referred to in that paragraph, the Prime Minister may rescind the approval referred to in that paragraph.

## **Section 2 Foreign Financial Instruments Clearing Organizations**

(Licenses)

Article 156-20-2 Notwithstanding the provisions of the preceding Section, a corporation incorporated based on foreign laws and regulations which performs services of the same type as Financial Instruments Debt Assumption Services in a foreign state may conduct Financial Instruments Debt Assumption Services if licensed by the Prime Minister pursuant to the provisions of this Section.

(License Application)

Article 156-20-3 (1) A person seeking the license referred to in the preceding Article must designate a domestic representative and submit a written license application to the Prime Minister, in which it states the following particulars:

(i) its trade name or name;

(ii) the amount of stated capital or the total amount of contributions;

(iii) the location of its head office or principal office;

(iv) the location of its office in Japan, if any;

(v) the titles and names of its officers;

(vi) the name and domestic address of its domestic representative; and

(vii) if the person conducts business other than Financial Instruments Debt Assumption Services, etc. and business incidental to this, the outline of that

business.

- (2) The following documents must accompany the written license application referred to in the preceding paragraph:
- (i) a document pledging that the applicant does not fall under the purview of the requirements set forth in paragraph (2), items (i) to (iv) inclusive of the following Article;
  - (ii) the articles of incorporation (including anything equivalent thereto; hereinafter the same applies in this Chapter);
  - (iii) the business rules;
  - (iv) the balance sheet and profit and loss statement;
  - (v) documents stating expected income and expenditures;
  - (vi) a document outlining the method of securing the collateral needed to settle outstanding obligations (meaning outstanding obligations as prescribed in Article 156-20-9, paragraph (1); hereinafter the same applies in paragraph (1), item (v) of the following Article) and other arrangements for settling them, and outlining the facilities, staff, and other systems for performing such settlement operations; and
  - (vii) beyond what is set forth in the preceding items, documents specified by Cabinet Office Ordinance.

(Licensing Examination Criteria)

Article 156-20-4 (1) Whenever a license application under paragraph (1) of the preceding Article is filed, the Prime Minister shall examine whether the application conforms to the following criteria:

- (i) the license applicant has obtained the same kind of license as that referred to in Article 156-2 or permission or any other administrative disposition similar to such a license in the state where its head office or principal office is located;
- (ii) the provisions of the articles of incorporation and business rules conform to laws and regulations and are sufficient to allow Financial Instruments Debt Assumption Services to be performed properly and reliably;
- (iii) the applicant has a sufficient financial basis to soundly perform Financial Instruments Debt Assumption Services, and has good prospects in terms of expected income and expenditures in connection with Financial Instruments Debt Assumption Services;
- (iv) in light of its personnel structure, the applicant has sufficient knowledge and experience to perform Financial Instruments Debt Assumption Service properly and reliably, and has sufficient social credibility; and
- (v) the applicant has an adequately developed structure and system for properly securing collateral to allocate for settling outstanding obligations, for managing highly reliable facilities in order to facilitate such settlement,

and for otherwise executing such settlement properly and reliably.

- (2) If, as a result of having conducted an examination pursuant to the provisions of the preceding paragraph, the Prime Minister finds that an application conforms to the criteria in that paragraph, the Prime Minister must grant the license, except in a case that falls under one of the following items:
- (i) the license applicant is a person that has not yet had the period specified by Cabinet Order pass since it commenced the same kind of business as Financial Instruments Debt Assumption Services in a foreign state based on foreign laws and regulations (unless this falls under a case specified by Cabinet Order);
  - (ii) the license applicant is a person that has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of this Act or for violating the provisions of a foreign law or regulation that is equivalent to this Act, and five years have yet to pass since the day on which the person finished serving the sentence or ceased to be subject to its enforcement;
  - (iii) the license applicant is a person that has had its license rescinded pursuant to the provisions of Article 156-20-14, paragraph (1) or (2); has had its registration rescinded pursuant to the provisions of Article 52, paragraph (1), Article 53, paragraph (3), Article 57-6, paragraph (3), Article 66-20, paragraph (1), or Article 66-42, paragraph (1); has had its permission rescinded pursuant to the provisions of Article 60-8, paragraph (1); or has had its authorization rescinded pursuant to the provisions of Article 106-7, paragraph (1), Article 106-21, paragraph (1), Article 106-28, paragraph (1), Article 155-6, Article 155-10, paragraph (1), or Article 156-5-9, paragraph (1); or is a person that had obtained a license or registration of the same kind in a foreign state pursuant to the provisions of a foreign law or regulation that is equivalent to this Act (including permission or any other administrative disposition similar to such a license or registration), but that has had its license or registration rescinded; and five years have yet to pass since the date of the rescission;
  - (iv) the license applicant has a person falling under one of the categories in Article 82, paragraph (2), item (iii), sub-items (a) to (f) inclusive as an officer or domestic representative;
  - (v) the authority responsible for the enforcement of the foreign law or regulation that is equivalent to this Act in the state where the head office or principal office of the license applicant is located has not given the assurance prescribed in Article 189, paragraph (2), item (i) or done anything else that is found to be equivalent to such assurance; or
  - (vi) the license application or a document or electronic or magnetic record that is required to accompany it contains a false statement or false record about a

material particular.

(Refusal of License)

- Article 156-20-5 (1) If a license application under the provisions of Article 156-20-3, paragraph (1) is filed and the Prime Minister finds it inappropriate to grant that license, the Prime Minister must notify the license applicant and have the relevant officials conduct a hearing.
- (2) Upon deciding to grant or not to grant the license referred to in Article 156-20-2, the Prime Minister shall notify the license applicant of this in writing without delay.

(Business Rules)

- Article 156-20-6 (1) A Foreign Financial Instruments Clearing Organization must perform Financial Instruments Debt Assumption Services pursuant to the provisions of its business rules.
- (2) The following matters must be specified in the business rules:
- (i) the transactions giving rise to obligations that are subject to Financial Instruments Debt Assumption Services;
  - (ii) the particulars of the requirements for a Clearing Member;
  - (iii) the particulars of the taking over, novating, or other methods of assuming obligations that the clearing organization performs as Financial Instruments Debt Assumption Services, and the particulars of performance of such obligations;
  - (iv) the particulars involved in ensuring the performance of the obligations of a Clearing Member;
  - (v) the particulars of Brokerage for the Clearing of Securities, etc.; and
  - (vi) other matters specified by Cabinet Office Ordinance.

(Duty of Confidentiality)

- Article 156-20-7 (1) It is prohibited for the officer (or, if an officer is a corporation, the person that performs those duties) or employee of a Foreign Financial Instruments Clearing Organization, or for a person that has held one of these positions, to divulge or misappropriate any secret learned in connection with Financial Instruments Debt Assumption Services.
- (2) It is prohibited for the officer (or, if an officer is a corporation, the person that performs those duties) or employee of a Foreign Financial Instruments Clearing Organization, or for a person that has held one of these positions, to utilize information learned in connection with the operation of Financial Instruments Debt Assumption Services, for a purpose other than the use in Financial Instruments Debt Assumption Services for which the information is provided.

(Prohibition on Unfairly Differential Treatment)

Article 156-20-8 A Foreign Financial Instruments Clearing Organization must not subject any particular Clearing Member to unfairly differential treatment.

(Procedures at the Commencement of Special Liquidation Proceedings)

Article 156-20-9 (1) If a Foreign Financial Instruments Clearing Organization makes provisions in its business rules for the method of netting off outstanding obligations (meaning obligations which have arisen from the subject transactions that a Clearing Member has effected, and which the clearing organization has taken over from the other parties to those subject transactions or has novated or in any other way borne as Financial Instruments Debt Assumption Services; claims (limited to claims with the same contents as such obligations) that the clearing organization has acquired against a Clearing Member as the consideration for the obligations which have arisen out of subject transactions and which the clearing organization has borne for the Clearing Member; and collateral; hereinafter the same applies in this paragraph), the method of allocating collateral to cover outstanding obligations, or other means of settling outstanding obligations, and special liquidation proceedings, bankruptcy proceedings, rehabilitation proceedings, or reorganization proceedings have been commenced for a Clearing Member, the calculation of the amount of the claim that the Foreign Financial Instruments Clearing Organization or the Clearing Member has in terms of the outstanding obligations and other means of settlement in relation to these proceedings, are to be in accordance with the provisions of the business rules.

(2) In bankruptcy proceedings, rehabilitation proceedings, or reorganization proceedings, the claims provided for in the preceding paragraph which a Foreign Financial Instruments Clearing Organization has are bankruptcy claims, rehabilitation claims, or reorganization claims, and the claims provided for in that paragraph which a Clearing Member has are the property that is part of the bankruptcy estate, rehabilitation debtor's assets, the property of the corporation in need of reorganization, or the property of the cooperative financial institution in need of reorganization.

(Authorization to Change the Articles of Incorporation or Business Rules)

Article 156-20-10 A Foreign Financial Instruments Clearing Organization must obtain the authorization of the Prime Minister if it seeks to change its articles of incorporation (limited to the part related to Financial Instruments Debt Assumption Services) or business rules.

(Notification of a Change in the Amount of Stated Capital)

Article 156-20-11 If a particular set forth in Article 156-20-3, paragraph (1), items (ii) to (vii) inclusive changes, the Foreign Financial Instruments Clearing Organization must notify the Prime Minister of this, pursuant to the provisions of Cabinet Office Ordinance, supplying the document set forth in paragraph (2), item (i) of that Article.

(Collection of Reports and Inspections)

Article 156-20-12 Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a Foreign Financial Instruments Clearing Organization, its Clearing Member, or the person that a Foreign Financial Instruments Clearing Organization has entrusted with its business, to submit reports or materials that should serve as a reference with regard to business or assets linked to the Financial Instruments Debt Assumption Services of the Foreign Financial Instruments Clearing Organization, and may have the relevant officials inspect the state of the business or assets, or the books and documents or any other articles, of a Foreign Financial Instruments Clearing Organization or the person that a Foreign Financial Instruments Clearing Organization has entrusted with its business (but may only have the relevant officials inspect the person that a Foreign Financial Instruments Clearing Organization has entrusted with its business as is necessary in connection with the business or assets linked to the Financial Instruments Debt Assumption Services of the Foreign Financial Instruments Clearing Organization).

(Business Improvement Orders)

Article 156-20-13 If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors as concerns a Foreign Financial Instruments Clearing Organization's business operations or the state of its assets as relates to Financial Instruments Debt Assumption Services, the Prime Minister, within the scope of this necessity, may order the Foreign Financial Instruments Clearing Organization to change the its business outline or its business methods, or to otherwise take measures that are necessary for improving its business operations or the state of its assets.

(Rescission of Licenses)

Article 156-20-14 (1) If a Foreign Financial Instruments Clearing Organization is discovered to have fallen under one of the categories in the items of Article 156-20-4, paragraph (2) at the time it was licensed, the Prime Minister may rescind the license.

(2) If a Foreign Financial Instruments Clearing Organization violates a law or regulation or a disposition by a government agency which is based on a law or

regulation, the Prime Minister may rescind the license referred to in Article 156-20-2, order the suspension of all or a part of its business activities during a fixed period of no longer than six months, or order the dismissal of its domestic representative (if a Foreign Financial Instruments Clearing Organization has a domestic office, this includes any officer stationed there).

(Authorization to Discontinue Financial Instruments Debt Assumption Services)

Article 156-20-15 A Foreign Financial Instruments Clearing Organization must obtain the authorization of the Prime Minister if it seeks to discontinue Financial Instruments Debt Assumption Service.

**Section 3 Coordination between a Financial Instruments Clearing Organization and Other Financial Instruments Clearing Organizations, etc.**

(Authorization When Coordinating with Other Financial Instruments Clearing Organizations, etc.)

Article 156-20-16 (1) With the authorization of the Prime Minister, a Financial Instruments Clearing Organization may conclude a contract for collaborative Financial Instruments Debt Assumption Services (meaning the performance, in the course of trade, of an act specified by Cabinet Office Ordinance as the act of having a third party bear the obligations of a Clearing Member in connection with a subject transaction that is other than a transaction set forth in Article 156-62, item (i), and personally bearing the obligations of the other party to the subject transaction with that Clearing Member; the same applies hereinafter) with a collaborating Clearing Organization, etc. (meaning other Financial Instruments Clearing Organization, Foreign Financial Instruments Clearing Organization, or corporation incorporated based on foreign laws and regulations that performs services of the same type as Financial Instruments Debt Assumption Services; hereinafter the same applies) and perform collaborative Financial Instruments Debt Assumption Services .

(2) A Financial Instruments Clearing Organization must receive the authorization referred to in the preceding paragraph for each collaborating Clearing Organization, etc. with which it concludes a contract for collaborative Financial Instruments Debt Assumption Services.

(3) Notwithstanding the provisions of the preceding two Sections, a Financial Instruments Clearing Organization that has obtained the authorization referred to in paragraph (1) (hereinafter referred to as an "Authorized Financial Instruments Clearing Organization" in this Section) and a collaborating Clearing Organization, etc. that has concluded a contract for

collaborative Financial Instruments Debt Assumption Services (limited to one other than a Financial Instruments Clearing Organization or Foreign Financial Instruments Clearing Organization) may perform Financial Instruments Debt Assumption Services that are connected with those collaborative Financial Instruments Debt Assumption Services.

(4) The provisions of Article 30-2 apply mutatis mutandis to the authorization referred to in paragraph (1).

(Application for Authorization)

Article 156-20-17 (1) A Financial Instruments Clearing Organization seeking the authorization referred to in paragraph (1) of the preceding Article must submit a written application for authorization to the Prime Minister, in which it states the following particulars:

- (i) its trade name;
- (ii) the trade name or name of the collaborating Clearing Organization, etc.;
- (iii) if the collaborating Clearing Organization, etc. is neither a Financial Instruments Clearing Organization nor a Foreign Financial Instruments Clearing Organization, the following matters:
  - (a) the amount of stated capital or total amount of contributions of the collaborating Clearing Organization, etc.;
  - (b) the location of the head office or principal office of the collaborating Clearing Organization, etc.;
  - (c) if an office of the collaborating Clearing Organization, etc. is in Japan, its location; and
  - (d) the titles and names of the officers of the collaborating Clearing Organization, etc.
- (iv) the transactions giving rise to obligations that are subject to collaborative Financial Instruments Debt Assumption Services; and
- (v) the particulars of the business method for collaborative Financial Instruments Debt Assumption Services.

(2) The following documents must accompany the written application for authorization referred to in the preceding paragraph:

- (i) a copy of the contract for collaborative Financial Instruments Debt Assumption Services (hereinafter referred to as the "Collaboration Agreement");
- (ii) a document stating the things specified by Cabinet Office Ordinance as constituting the business outline and business methods for collaborative Financial Instruments Debt Assumption Services;
- (iii) if the collaborating Clearing Organization, etc. is neither a Financial Instruments Clearing Organization nor a Foreign Financial Instruments Clearing Organization, the following matters:

- (a) a document pledging that the collaborating Clearing Organization, etc. does not fall under the purview of the requirement set forth in paragraph (2), items (i) to (iv) inclusive of the following Article;
  - (b) the articles of incorporation and business rules of the collaborating Clearing Organization, etc. (including anything equivalent to these, and limited to those that are related to collaborative Financial Instruments Debt Assumption Services; hereinafter the same applies in this Section);
  - (c) a document stating the things specified by Cabinet Office Ordinance as constituting the business outline and business methods of the collaborating Clearing Organization, etc. (limited to business related to collaborative Financial Instruments Debt Assumption Services);
  - (d) the balance sheet and profit and loss statement of the collaborating Clearing Organization, etc.; and
  - (e) documents stating the expected income and expenditures of the collaborating Clearing Organization, etc.
  - (iv) a document outlining the method of securing the collateral needed to settle outstanding obligations (meaning outstanding obligations as prescribed in Article 156-20-19, paragraph (1); hereinafter the same applies in paragraph (1), item (v) of the following Article) and other arrangements for settling them, and outlining the facilities, staff, and other systems for performing such settlement operations; and
  - (v) in addition to what is set forth in the preceding items, documents specified by Cabinet Office Ordinance.
- (3) In the case referred to in the preceding paragraph, if the articles of incorporation or balance sheet has been prepared as an electronic or magnetic record or an electronic or magnetic record has been prepared for a profit and loss statement in lieu of a written document, the electronic or magnetic record (limited to those specified by Cabinet Office Ordinance) may accompany the written application for authorization in lieu of the written document.

(Examination Criteria for Authorization)

Article 156-20-18 (1) Whenever an application for authorization under the provisions of paragraph (1) of the preceding Article is filed, the Prime Minister shall examine whether the application conforms to the following criteria:

- (i) the collaborating Clearing Organization, etc. (limited to one other than a Financial Instruments Clearing Organization or Foreign Financial Instruments Clearing Organization; hereinafter the same applies in the following paragraph and the following Article) has obtained the same kind of license as that referred to in Article 156-2 or permission or any other administrative disposition similar to such a license in the state where its head office or principal office is located;

- (ii) the provisions of the articles of incorporation and business rules of the collaborating Clearing Organization, etc., as well as the provisions of the Collaboration Agreement, conform to laws and regulations; and the provisions of the articles of incorporation and business rules of the applicant for authorization and the collaborating Clearing Organization, etc., as well as the provisions of the Collaboration Agreement, are sufficient to allow collaborative Financial Instruments Debt Assumption Services and business of the collaborating Clearing Organization, etc. (limited to business related to collaborative Financial Instruments Debt Assumption Services) to be performed properly and reliably;
  - (iii) the applicant for authorization and the collaborating Clearing Organization, etc. have a sufficient financial basis to soundly perform collaborative Financial Instruments Debt Assumption Services and conduct the business of the collaborating Clearing Organization, etc. (limited to those related to collaborative Financial Instruments Debt Assumption Services) and have good prospects in terms of expected income and expenditures in connection with collaborative Financial Instruments Debt Assumption Services;
  - (iv) in light of their personnel structures, the applicant for authorization and the collaborating Clearing Organization, etc. have sufficient knowledge and experience to perform collaborative Financial Instruments Debt Assumption Services and to conduct the business of the collaborating Clearing Organization, etc. (limited to business related to collaborative Financial Instruments Debt Assumption Services) properly and reliably, and have sufficient social credibility;
  - (v) there is an adequately developed structure and system for properly securing collateral to allocate for settling outstanding obligations, for managing highly reliable facilities in order to facilitate such settlement, and for otherwise executing such settlement properly and reliably;
  - (vi) the articles of incorporation, business rules, or Collaboration Agreement stipulates that the applicant for authorization will reliably perform the obligations of the other party to a subject transaction by a Clearing Member that the applicant for authorization bears; and
  - (vii) it is unlikely that the applicant for authorization's engagement in collaborative Financial Instruments Debt Assumption Services will compromise its proper and reliable operation of Financial Instruments Debt Assumption Services.
- (2) If, as a result of having conducted an examination pursuant to the provisions of the preceding paragraph, the Prime Minister finds that an application conforms to the criteria in that paragraph, the Prime Minister shall grant the authorization, except in a case that falls under one of the following items:

- (i) the collaborating Clearing Organization, etc. is a person that has not yet had the period specified by Cabinet Order pass since it commenced the same kind of business as Financial Instruments Debt Assumption Services in a foreign state based on a foreign law or regulation (unless this falls under a case specified by Cabinet Order);
- (ii) the collaborating Clearing Organization, etc. is a person that has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of this Act or for violating the provisions of a foreign law or regulation that is equivalent to this Act, and five years have yet to pass since the day on which the person finished serving the sentence or ceased to be subject to its enforcement;
- (iii) the collaborating Clearing Organization, etc. is a person that has had its license rescinded pursuant to the provisions of Article 156-20-14, paragraph (1) or (2); has had its registration rescinded pursuant to the provision of Article 52, paragraph (1), Article 53, paragraph (3), Article 57-6, paragraph (3), Article 66-20, paragraph (1), or Article 66-42, paragraph (1); has had its permission rescinded pursuant to the provisions of Article 160-8, paragraph (1); or has had its authorization rescinded pursuant to the provisions of Article 106-7, paragraph (1), Article 106-21, paragraph (1), Article 106-28, paragraph (1), Article 155-6, Article 155-10, paragraph (1), or Article 156-5-9, paragraph (1); or is a person that had obtained a license or registration of the same kind in a foreign state pursuant to the provisions of a foreign law or regulation that is equivalent to this Act (including permission or any other administrative disposition similar to such a license or registration), but that has had that license or registration rescinded; and five years have yet to pass since the date of the rescission;
- (iv) the collaborating Clearing Organization, etc. has a person falling under one of the categories in Article 82, paragraph (2), item (iii), sub-items (a) to (f) inclusive as an officer;
- (v) the authority responsible for the enforcement of the foreign law or regulation that is equivalent to this Act in the state where the head office or principal office of the collaborating Clearing Organization, etc. is located has not given the assurance prescribed in Article 189, paragraph (2), item (i) or done anything else that is found to be equivalent to such assurance; or
- (vi) the application for authorization or a document or electronic or magnetic record that is required to accompany it contains a false statement or false record with regard to an important particular.

(Procedures at the Commencement of Special Liquidation Proceedings)

Article 156-20-19 (1) If a collaborating Clearing Organization, etc. makes provisions in its business rules for the method of netting off outstanding

obligations (meaning obligations which have arisen out of subject transactions effected by a Clearing Member and which the collaborating Clearing Organization, etc. has taken over from the other parties to those subject transactions or has novated or in any other way borne as Financial Instruments Debt Assumption Services; claims (limited to claims with the same contents as such obligations) that the collaborating Clearing Organization, etc. has acquired against a Clearing Member as the value of the obligations which have arisen out of subject transactions and which the collaborating Clearing Organization, etc. has borne for the Clearing Member; and collateral; hereinafter the same applies in this paragraph), the method of allocating collateral to cover outstanding obligations, or other means of settling outstanding obligations, and special liquidation proceedings, bankruptcy proceedings, rehabilitation proceedings, or reorganization proceedings have been commenced for a Clearing Member, the calculation of the amount of the claim that the collaborating Clearing Organization, etc. or the Clearing Member has in terms of the outstanding obligations and other means of settlement in relation to these proceedings, are to be in accordance with the provisions of the business rules.

(2) In bankruptcy proceedings, rehabilitation proceedings, or reorganization proceedings, the claims provided for in the preceding paragraph which a collaborating Clearing Organization, etc. has are bankruptcy claims, rehabilitation claims, or reorganization claims, and the claims provided for in that paragraph which a Clearing Member has are the property that is part of the bankruptcy estate, rehabilitation debtor's assets, the property of the corporation in need of reorganization, or the property of the cooperative financial institution in need of reorganization.

(Rescission of Authorization)

Article 156-20-20 If an Authorized Financial Instruments Clearing Organization is discovered to have fallen under Article 156-20-18, paragraph (2), item (vi) at the time it obtained the authorization referred to in Article 156-20-16, paragraph (1), or if the collaborating Clearing Organization, etc. subject to that authorization is discovered to have fallen under one of the categories in items (i) to (v) inclusive of that paragraph, the Prime Minister may rescind that authorization.

(Authorization of Changes)

Article 156-20-21 (1) An Authorized Financial Instruments Clearing Organization must obtain the authorization of the Prime Minister if it seeks to change a particular set forth in Article 156-20-17, paragraph (1), item (iv) or (v) or a particular stated in a document set forth in item (i) or (ii) of paragraph

(2) of that Article.

- (2) If a particular set forth in Article 156-20-17, paragraph (1), item (ii) or (iii), or a particular stated in a document set forth in paragraph (2), item (iii), sub-item (b) or (c) of that Article changes, the Authorized Financial Instruments Clearing Organization must notify the Prime Minister of this, pursuant to the provisions of Cabinet Office Ordinance.
- (3) If an Authorized Financial Instruments Clearing Organization discontinues collaborative Financial Instruments Debt Assumption Services, the authorization referred to in Article 156-20-16, paragraph (1) ceases to be valid. In such a case, the Authorized Financial Instruments Clearing Organization must notify the Prime Minister of this, pursuant to the provisions of Cabinet Office Ordinance.

(Supervisory Measures for Authorized Financial Instruments Clearing Organizations)

Article 156-20-22 If an Authorized Financial Instruments Clearing Organization or the collaborating Clearing Organization, etc. subject to the authorization falls under one of the following items and the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may rescind the Authorized Financial Instruments Clearing Organization's Article 156-20-16, paragraph (1) authorization, order the suspension of all or a part of its collaborative Financial Instruments Debt Assumption Services during a fixed period of no longer than six months, order a change in its collaborative Financial Instruments Debt Assumption Services, or issue an order prohibiting a part of its collaborative Financial Instruments Debt Assumption Services:

- (i) the Authorized Financial Instruments Clearing Organization falls under one of the following:
- (a) it becomes unable to satisfy a criterion set forth in one of the items of Article 156-20-18, paragraph (1) (excluding item (i));
  - (b) it violates the conditions attached to authorization; or
  - (c) it violates a law or regulation, a disposition by a government agency which is based on a law or regulation, the Authorized Financial Instruments Clearing Organization's business rules, or the Collaboration Agreement.
- (ii) the collaborating Clearing Organization, etc. subject to authorization falls under one of the following:
- (a) it becomes unable to satisfy a criterion set forth in one of Article 156-20-18, paragraph (1), items (i) to (v) inclusive;
  - (b) it comes to fall under one of the categories in Article 156-20-18, paragraph (2), items (ii) to (v) inclusive,;

(c) it violates a law or regulation, a disposition by a government agency which is based on a law or regulation, or the business rules of the collaborating Clearing Organization, etc., or the Collaboration Agreement.

#### **Section 4 Miscellaneous Provisions**

(Hearing of Opinions from the Bank of Japan)

Article 156-20-23 If the Prime Minister finds it to be necessary in order to reach a disposition based on the provisions of this Chapter, the Prime Minister may seek the opinion of the Bank of Japan.

(Application to Brokerage for the Clearing of Securities)

Article 156-21 (1) In Brokerage for the Clearing of Securities, etc., the customer that entrusts a person with Brokerage for the Clearing of Securities, etc. is deemed to be the person conducting the subject transaction that is connected with the Brokerage for the Clearing of Securities, etc., and the provisions of Article 116 (including as applied mutatis mutandis pursuant to Article 132) and Article 119, paragraphs (1) to (3) inclusive apply.

(2) In the brokerage of a person's entrustment with Brokerage for the Clearing of Securities, etc. in connection with a Market Transaction of Derivatives, the customer that entrusts a person with the Brokerage for the Clearing of Securities, etc. is deemed to be the person conducting the brokerage for the Market Transaction of Derivatives, and the provisions of Article 119, paragraphs (1) to (3) inclusive apply.

(Delegation to Cabinet Office Ordinance)

Article 156-22 Procedures for the implementation of the provisions of Articles 156-2 to the preceding Article inclusive and particulars that are otherwise necessary for their implementation are specified by Cabinet Office Ordinance.

#### **Chapter V-4 Securities Finance Company**

(Minimum Amount of Stated Capital)

Article 156-23 A Securities Finance Company must be a stock company whose amount of stated capital exceeds the amount that is specified by Cabinet Order as being necessary and appropriate in order for it to perform the business prescribed in paragraph (1) of the following Article.

(Licenses and License Applications)

Article 156-24 (1) A person seeking use the clearing framework of a Financial Instruments Exchange Market operated by a Financial Instruments Exchange

- or the clearing framework of a Over-the-Counter Securities Market operated by an Authorized Financial Instruments Business Association, to engage in the business of lending, to the Members, etc. of that Financial Instruments Exchange or to the association members of that Authorized Financial Instruments Business Association, the money or Securities that are needed for the settlement of purchase and sales and other transactions of Securities that a Financial Services Provider effects by granting credit to a customer (hereinafter referred to as a "Margin Transaction") or for the settlement of a transaction specified by Cabinet Order, must be licensed by the Prime Minister.
- (2) A stock company seeking the license referred to in the preceding paragraph must submit a written application to the Prime Minister, in which it states the following particulars:
- (i) its trade name and amount of stated capital;
  - (ii) the names and locations of its head office, branch offices, and other business offices; and
  - (iii) the names of its officers.
- (3) The articles of incorporation, documents giving a business outline and stating the business methods, and other documents specified by Cabinet Office Ordinance must accompany the written application referred to in the preceding paragraph.
- (4) The provisions of Article 81, paragraph (3) apply mutatis mutandis to the articles of incorporation referred to in the preceding paragraph.

(Licensing Examination Criteria)

- Article 156-25 (1) Whenever a written application under the provisions of paragraph (2) of the preceding Article is submitted, the Prime Minister shall examine whether the applicant is sufficiently qualified to conduct business as a Securities Finance Company, in light of its personnel structure, credit status, and capacity for fund procurement.
- (2) If, as a result of having conducted an examination pursuant to the provisions of the preceding paragraph, the Prime Minister finds that an application conforms to the criteria in that paragraph, the Prime Minister shall grant the license, except in a case that falls under one of the following items:
- (i) the license applicant is not a stock company with a stated capital exceeding the amount specified by Cabinet Order which is referred to in Article 156-23;
  - (ii) the license applicant is not a stock company (meaning a stock company that has the following organs):
    - (a) a board of directors; or
    - (b) a company auditor or committees.
  - (iii) the license applicant is a person that falls under Article 29-4, paragraph (1), item (i), sub-item (b);

- (iv) the license applicant is a company that has had the license referred to in Article 80, paragraph (1) rescinded pursuant to the provisions of Article 148 or Article 152, paragraph (1); has had the license referred to in Article 156-2 rescinded pursuant to the provisions of Article 156-17, paragraph (1) or (2); has had the license referred to in paragraph (1) of the preceding Article rescinded pursuant to the provisions of Article 148 or Article 156-32, paragraph (1) as applied mutatis mutandis pursuant to the following Article; has had the registration referred to in Article 29 rescinded pursuant to the provisions of Article 52, paragraph (1), Article 53, paragraph (3), Article 54, or Article 57-6, paragraph (3); has had the registration referred to in Article 66 rescinded pursuant to the provisions of Article 66-20, paragraph (1); or the license applicant is a company that had obtained a license or registration of the same kind in a foreign state pursuant to the provisions of a foreign law or regulation that is equivalent to this Act (including permission or any other administrative disposition similar to such a license or registration), but that has had that license or registration rescinded or is a company that has had the registration referred to in Article 66-27 rescinded pursuant to the provisions of Article 66-42, paragraph (1); and five years have yet to pass since the date of the rescission;
- (v) the license applicant is a company that has a person falling under one of the categories in Article 82, paragraph (2), item (iii), sub-items (a), (b) and (e) as a director, accounting advisor, company auditor, or executive officer; or
- (vi) the license application or a document or electronic or magnetic record that is required to accompany it contains a false statement or false record about a material particular.

(Mutatis Mutandis Application of Provisions for Refusal of a License)

Article 156-26 The provisions of Articles 83 and 148 apply mutatis mutandis to the license of a Securities Finance Company. In this case, in Article 148, the phrase "one of the categories in the items of Article 82, paragraph (2)" is deemed to be replaced with "one of the categories in the items of Article 156-25, paragraph (2)".

(Restriction on Concurrent Business)

Article 156-27 (1) A Securities Finance Company may conduct the following business in addition to the business prescribed in Article 156-24, paragraph (1), to the extent that such concurrent business does not obstruct the execution of the business prescribed in that paragraph:

- (i) the lending and borrowing of Securities (excluding the business prescribed in Article 156-24, paragraph (1)), or intermediation or agency for the lending and borrowing of Securities;

- (ii) the lending of money to Financial Services Providers (excluding business prescribed in Article 156-24, paragraph (1));
  - (iii) the lending of money to the customers of Financial Services Providers; and
  - (iv) other business specified by Cabinet Office Ordinance.
- (2) If a Securities Finance Company seeks to conduct business prescribed in one of the items of the preceding paragraph, it must notify the Prime Minister of this pursuant to the provisions of Cabinet Office Ordinance.
- (3) A Securities Finance Company may conduct business for which it has obtained the approval of the Prime Minister, in addition to business prescribed in paragraph (1) of this Article and Article 156-24, paragraph (1).
- (4) If a Securities Finance Company seeks the approval referred to in the preceding paragraph but the Prime Minister finds that the Securities Finance Company's concurrent engagement in the business for which it seeks approval would impede its execution of the business prescribed in Article 156-24, paragraph (1), the Prime Minister may refuse to grant the approval referred to in the preceding paragraph, after notifying the Securities Finance Company and having the relevant official conduct a hearing.

(Authorization of Changes to a Business Outline)

Article 156-28 (1) A Securities Finance Company must obtain the authorization of the Prime Minister if it seeks to change the business outline or business methods for business prescribed in Article 156-24, paragraph (1), or to reduce its stated capital.

- (2) A Securities Finance Company shall notify the Prime Minister pursuant to the provisions of Cabinet Office Ordinance if it seeks to set or change the conditions for lending money or Securities (limited to lendings in connection with the business prescribed in Article 156-24, paragraph (1)), to increase its stated capital, or to change its trade name.
- (3) If a Securities Finance Company comes to fall under one of the following items, it must notify the Prime Minister of this without delay, pursuant to the provisions of Cabinet Office Ordinance:
- (i) a particular set forth in Article 156-24, paragraph (2), item (ii) or (iii) changes;
  - (ii) it discontinues the business to which the notification referred to in paragraph (2) of the preceding Article pertains; or
  - (iii) it discontinues the business to which the approval referred to in paragraph (3) of the preceding Article pertains.

(Order for a Change of Business Methods)

Article 156-29 The Prime Minister may order a change of methods by which or conditions under which a Securities Finance Company lends money or

Securities (limited to lending connected with the business prescribed in Article 156-24, paragraph (1)), if those methods or conditions are found to have become inappropriate in light of general economic conditions or the transactions on the Financial Instruments Exchange Market or Over-the-Counter Securities Market tend to be unsound, and the Prime Minister finds it to be particularly necessary for facilitating fair purchase and sales on the Financial Instruments Exchange Market or Over-the-Counter Securities Market as well as for achieving a smooth distribution of Securities. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.

(Eligibility as a Representative Director)

Article 156-30 (1) The representative director or representative executive officer of a Securities Finance Company must be a person that is not the officer or employee of a Financial Services Provider.

(2) The provisions of the proviso to Article 331, paragraph (2) of the Companies Act (including as applied mutatis mutandis pursuant to Article 335, paragraph (1) of that Act) and of Article 332, paragraph (2) (including as applied mutatis mutandis pursuant to Article 334, paragraph (1) of that Act); Article 336, paragraph (2); and the proviso to Article 402, paragraph (5) of that Act do not apply to a Securities Finance Company.

(Restriction on the Concurrent Holding of Positions by Directors)

Article 156-31 (1) A person that falls under one of the categories in Article 82, paragraph (2), item (iii), sub-items (a), (b) or (e) may not become the director, accounting advisor, company auditor, or executive officer of a Securities Finance Company.

(2) The officer of a Securities Finance Company loses that position if that officer comes to fall under a category of person provided for in the preceding paragraph.

(3) If the Prime Minister discovers that a person has become the officer of a Securities Finance Company by wrongful means, or if a Securities Finance Company or its officer violates a law or regulation or a disposition by a government agency which is based on a law or regulation, the Prime Minister may order the Securities Finance Company to dismiss that officer.

(Obligation to Conclude a Contract with a Designated Dispute Resolution Organization)

Article 156-31-2 (1) A Securities Finance Company that conducts the business referred to in Article 156-27, paragraph (1), item (i), (iii), or (iv) must take the

measures specified in the relevant of the following items for the category of cases set forth in that item:

- (i) if there is a Designated Dispute Resolution Organization for Securities Finance Companies (meaning a Designated Dispute Resolution Organization for which the Category of Dispute Resolution Services is the Specified Services of a Securities Finance Company (meaning the Specified Services of a Securities Finance Company as defined in Article 156-38, paragraph (7); hereinafter the same applies in this paragraph); hereinafter the same applies in this Article): measures to conclude a Basic Contract for the Implementation of Dispute Resolution Procedures in connection with the Specified Services of a Securities Finance Company with a single Designated Dispute Resolution Organization for Securities Finance Companies; or
  - (ii) if there is no Designated Dispute Resolution Organization for Securities Finance Companies: complaint processing measures and dispute resolution measures in connection with the Specified Services of a Securities Finance Company.
- (2) If a Securities Finance Company takes measures to conclude a Basic Contract for the Implementation of Dispute Resolution Procedures pursuant to the provisions of the preceding paragraph, it shall publicly announce the trade name or name of the Designated Dispute Resolution Organization for Securities Finance Companies that is the other party to the Basic Contract for the Implementation of Dispute Resolution Procedures.
- (3) The provisions of paragraph (1) do not apply to the period specified in the relevant of the following items for the category of cases set forth in that item:
- (i) a case that formerly fell under the category of case set forth in paragraph (1), item (i), which has come to fall under the category of case set forth in item (ii) of that paragraph: the period that the Prime Minister specifies as the period necessary for taking the measures set forth in paragraph (1), item (ii) at the time of granting the authorization to discontinue Dispute Resolution Services, etc. under Article 156-60, paragraph (1) or at the time of rescinding the designation under Article 156-61, paragraph (1);
  - (ii) a case that formerly fell under the category of case set forth in paragraph (1), item (i), in which the discontinuation of the Dispute Resolution Services, etc. of a single Designated Dispute Resolution Organization for Securities Finance Companies under that item has been authorized pursuant to Article 156-60, paragraph (1) or the designation under Article 156-39, paragraph (1) of a single Designated Dispute Resolution Organization for Securities Finance Companies under that item has been rescinded pursuant to Article 156-61, paragraph (1) (excluding a case set forth in the preceding item): the period specified by the Prime Minister as the period necessary for taking the measures set forth in paragraph (1), item (i) at the time of granting that

- authorization or making such rescission; or
- (iii) a case that formerly fell under the category of case set forth in paragraph (1), item (ii), which has come to fall under the category of case set forth in item (i) of that paragraph: the period specified by the Prime Minister as the period necessary for taking the measures set forth in that item at the time of the designation under Article 156-39, paragraph (1).

(Supervisory Measures)

- Article 156-32 (1) If a Securities Finance Company violates a law or regulation or a disposition by a government agency which is based on a law or regulation, the Prime Minister may rescind its license or order the suspension of all or a part of its business activities during a fixed period of no longer than six months.
- (2) Irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, before seeking to order the suspension of business pursuant to the provisions of the preceding paragraph, the Prime Minister must conduct a hearing.

(Business Improvement Orders)

- Article 156-33 (1) In addition to issuing an order under Article 156-29, if the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors as concerns a Securities Finance Company's business operations or the state of its assets, the Prime Minister, within the scope of this necessity, may order the Securities Finance Company to change its business outline or business methods, or to otherwise take measures that are necessary for improving its business operations or the state of its assets.
- (2) Irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, before seeking to issue an order under the provisions of the preceding paragraph, the Prime Minister must conduct a hearing.

(Collection of Reports and Inspections)

- Article 156-34 Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a Securities Finance Company or the person that a Securities Finance Company has entrusted with its business to submit reports or materials that should serve as a reference with regard to the business or assets of the Securities Finance Company, and may have the relevant officials inspect the state of the business or assets, or the books and documents or any other articles, of a Securities Finance Company or the person that a Securities Finance Company has entrusted with its business (but may only have the relevant officials inspect the person that a Securities Finance Company has

entrusted with its business as is necessary in connection with the business or assets of the Securities Finance Company).

(Submission of Business Report)

Article 156-35 Each business year, pursuant to the provisions of Cabinet Office Ordinance, a Securities Finance Company shall prepare a business report and submit it to the Prime Minister within three months after the end of the business year.

(Authorization for Business Discontinuance)

Article 156-36 The following particulars do not become effective without the authorization of the Prime Minister:

- (i) a resolution to discontinue the business of a Securities Finance Company (limited to the business prescribed in Article 156-24, paragraph (1)), or a resolution to dissolve a Securities Finance Company; and
- (ii) a merger, company split, or transfer or acquisition of all or a part of business operations, to which a Securities Finance Company is the party.

(Delegation to Cabinet Office Ordinance)

Article 156-37 Procedures for the implementation of the provisions of Article 156-23 to the preceding Article inclusive and particulars that are otherwise necessary for their implementation are specified by Cabinet Office Ordinance.

## **Chapter V-5 Designated Dispute Resolution Organizations**

### **Section 1 General Provisions**

(Definitions)

Article 156-38 (1) The term "Designated Dispute Resolution Organization" as used in this Chapter means a person that has obtained the designation under paragraph (1) of the following Article.

(2) The term "Specified Type I Financial Instruments Transaction Services" as used in this Chapter means services that a Financial Services Provider performs in connection with the acts set forth in the items of Article 28, paragraph (1) and services it performs pursuant to Article 35, paragraph (1), as well as services that a Financial Instruments Intermediary provides on behalf of a Financial Services Provider, in connection with the acts set forth in Article 2, paragraph (11), items (i) to (iii) inclusive.

(3) The term "Specified Type II Financial Instruments Transaction Services" as used in this Chapter means services that a Financial Services Provider performs in connection with the acts set forth in the items of Article 28, paragraph (2) (excluding services in connection with the acts set forth in

- Article 63, paragraph (1), item (i)) and services incidental thereto.
- (4) The term "Specified Investment Advisory and Agency Services" as used in this Chapter means services that a Financial Services Provider performs in connection with the acts set forth in the items of Article 28, paragraph (3), and services incidental thereto.
- (5) The term "Specified Investment Management" as used in this Chapter means services that a Financial Services Provider performs in connection with the acts set forth in the items of Article 28, paragraph (4) (excluding services in connection with the acts set forth in Article 63, paragraph (1), item (ii)) and services it performs pursuant to Article 35, paragraph (1), as well as services that a Financial Instruments Intermediary performs on behalf of a Financial Services Provider, in connection with the acts set forth in Article 2, paragraph (11), item (iv) .
- (6) The term "Specified Services of a Registered Financial Institution" as used in this Chapter means services that a registered financial institution performs in connection with the registration under Article 33-2 and services incidental thereto, the Specified Financial Instruments Transaction Services (meaning Specified Financial Instruments Transaction Services defined in Article 33-8, paragraph (2); hereinafter the same applies in this paragraph) that a person performing Specified Financial Instruments Transaction Services for that registered financial institution performs, as well as services that a Financial Instruments Intermediary performs on behalf of the registered financial institution, in connection with the acts set forth in Article 2, paragraph (11), items (i) to (iv) inclusive.
- (7) The term "Specified Services of a Securities Finance Company" as used in this Chapter means services that a Securities Finance Company performs pursuant to the provisions of Article 156-27, paragraph (1), items (i), (iii) and (iv).
- (8) The term "Financial Instruments Transaction Services" as used in this Chapter means Specified Type I Financial Instruments Transaction Services, Specified Type II Financial Instruments Transaction Services, Specified Investment Advisory and Agency Services, Specified Investment Management, the Specified Services of a Registered Financial Institution, or the Specified Services of a Securities Finance Company.
- (9) The term "Complaint Processing Procedures" as used in this Chapter means procedures for processing complaints related to Financial Instruments Transaction Services (meaning the complaints about Financial Instruments Transaction Services; the same applies in Article 156-44, Article 156-45 and Article 156-49).
- (10) The term "Dispute Resolution Procedures" as used in this Chapter means procedures to resolve disputes related to Financial Instruments Transaction Services (meaning disputes concerning Financial Instruments Transaction

Services which can be settled between the parties; the same applies in Article 156-44, Article 156-45 and Articles 156-50 to 156-52 inclusive) without using court proceedings.

- (11) The term "Dispute Resolution Services, etc." as used in this Chapter means to the services involved in Complaint Processing Procedures and Dispute Resolution Procedures, as well as services incidental thereto.
- (12) The term "Category of Dispute Resolution Services" as used in this Chapter means whether Dispute Resolution Services, etc. are connected with Specified Type I Financial Instruments Transaction Services, Specified Type II Financial Instruments Transaction Services, Specified Investment Advisory and Agency Services, Specified Investment Management, the Specified Services of a Registered Financial Institution, or the Specified Services of a Securities Finance Company.
- (13) The term "Basic Contract for the Implementation of Dispute Resolution Procedures" as used in this Chapter means a contract concluded between a Designated Dispute Resolution Organization and a person or firm involved in Financial Instruments Transactions (meaning a Financial Services Provider, etc. or a Securities Finance Company; the same applies in the following Article, Article 156-42, paragraph (2), Article 156-44, and Article 156-56, item (i)) with regard to the implementation of Dispute Resolution Services, etc.

(Designation of a Person to Conduct Dispute Resolution Services, etc.)

Article 156-39 (1) At the application of a person satisfying the following requirements, the Prime Minister may designate that person as a person that conducts Dispute Resolution Services, etc.:

- (i) it is a corporation (including an organization without legal personality for which a representative or administrator has been designated and excluding a corporation incorporated based on foreign laws and regulations and any other foreign organizations; the same applies in item (iv), sub-item (d));
- (ii) it does not fall under the category of a person that has had a designation under this paragraph rescinded pursuant to Article 156-61, paragraph (1) and not yet had five years pass since the date of the rescission, nor does it fall under the category of a person that has had the designation under the provisions of other Acts which is specified by Cabinet Order as involving business equivalent to Dispute Resolution Services, etc. rescinded, and not yet had five years pass since the date of the rescission;
- (iii) it does not fall under the category of a person that has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of this Act or the Attorney Act (Act No. 205 of 1949) or for violating the provisions of a foreign law or regulation that is equivalent to one of these Acts, and not yet had five years pass since the day

- on which it finished serving the sentence or ceased to be subject to its enforcement;
- (iv) it has no officer (including the representative or administrator of an organization without legal personality for which a representative or administrator has been designated; hereinafter the same applies in this Chapter) that falls under one of the following categories of persons:
    - (a) an adult ward or a person under curatorship, or a person that is treated in the same manner under foreign laws and regulations;
    - (b) a bankrupt that has not obtained a restoration of rights, or a person that is treated in the same manner under foreign laws and regulations;
    - (c) a person that has been sentenced to imprisonment or a heavier punishment (including an equivalent sentence under foreign laws and regulations), if five years have not yet passed since the day on which the person finished serving the sentence or ceased to be subject to its enforcement;
    - (d) a person that, during the 30 days prior to the date of rescission, was the officer (including a person treated in the same manner under foreign laws and regulations; the same applies in this sub-item (d)) of a corporation, in a case in which a designation under this paragraph has been rescinded pursuant to the provisions of Article 156-61, paragraph (1) or an administrative disposition which is similar to such a designation and which a corporation has received in a foreign state pursuant to the provisions of a foreign law or regulation that is equivalent to this Act, has been rescinded, and five years have not yet passed since the date of rescission; or a person that, during the 30 days prior to the date of rescission, was the officer of a corporation, in a case in which a designation under the provisions of other Acts, which is specified by Cabinet Order as being for business equivalent to Dispute Resolution Services, etc., has been rescinded or an administrative disposition which is similar to that designation, which is specified by Cabinet Order, and which a corporation has been issued in a foreign state pursuant to the provisions of a foreign law or regulation that is equivalent to one of those other Acts, has been rescinded, and five years have not yet passed since the date of the rescission; or
    - (e) a person that has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of this Act or the Attorney Act, or for violating the provisions of a foreign law or regulation that is equivalent to one of these Acts, if five years have not yet passed since the day on which the person finished serving the sentence or ceased to be subject to its enforcement.
  - (v) it has a sufficient financial and technical basis to perform Dispute

- Resolution Services, etc. in an appropriate manner;
- (vi) the composition of its officers and employees is unlikely to compromise the fair implementation of Dispute Resolution Services, etc.;
- (vii) its rules for implementing Dispute Resolution Services, etc. (hereinafter referred to as the "Operational Rules") conform to laws and regulations and are found to be sufficient for allowing it to implement Dispute Resolution Services, etc. fairly and appropriately pursuant to the provisions of this Act; and
- (viii) the result of the hearing of opinions held pursuant to the following paragraph is that the proportion of the number of persons and firms involved in Financial Instruments Transactions that have stated an objection to the particulars of the cancellation of the Basic Contract for the Implementation of Dispute Resolution Procedures, other contents of the Basic Contract for the Implementation of Dispute Resolution Procedures (excluding the matters set forth in the items of Article 156-44, paragraph (2)), and other contents of the Operational Rules (excluding the matters that are to constitute the content of those rules pursuant to paragraph (3) of that Article and the particulars that are necessary for conforming to the criteria set forth in the items of paragraph (4) of that Article and paragraph (5), item (i)) (limited to objections for which there are reasonable grounds), to the total number of persons and firms involved in Financial Instruments Transactions, is less than the proportion specified by Cabinet Order.
- (2) A person seeking to file the application referred to in the preceding paragraph shall explain the contents of the Operational Rules to persons and firms involved in Financial Instruments Transactions, hear opinions as to whether there are any objections to these (if there are objections, this includes the grounds for them) and prepare documents stating the results of this, in advance and pursuant to the provisions of Cabinet Office Ordinance,.
- (3) Before seeking to make a designation under paragraph (1), the Prime Minister shall consult the Minister of Justice with regard to the relevant person satisfying the requirements set forth in items (v) to (vii) inclusive of that paragraph (limited to the part related to the operation of Dispute Resolution Procedures, and with regard to the requirements set forth in item (vii), limited to the requirements involving the criteria set forth in the items of Article 156-44, paragraph (4) and the items of paragraph (5) of that Article).
- (4) A designation under paragraph (1) is to be made for each Category of Dispute Resolution Services, and the proportion under item (viii) of that item is to be calculated for each Category of Dispute Resolution Services.
- (5) Upon making a designation under paragraph (1), the Prime Minister shall make a public notice of the trade name or name and the location of the principal business office or office of the Designated Dispute Resolution

Organization and the Category of Dispute Resolution Services under designation, as well as the day on which the Prime Minister made the designation, in the official gazette.

(Application for Designation)

Article 156-40 (1) A person seeking designation under paragraph (1) of the preceding Article must submit a written application for designation to the Prime Minister, in which it states the following particulars:

- (i) the Category of Dispute Resolution Services for which it seeks designation;
- (ii) its trade name or name;
- (iii) the name and location of its principal business office or office or any other business offices or offices for Dispute Resolution Services, etc.; and
- (iv) the names or trade names of its officers.

(2) The following documents must accompany the written application for designation referred to in the preceding paragraph:

- (i) a document pledging that the applicant satisfies the requirements set forth in items (iii) and (iv) of paragraph (1) of the preceding Article;
- (ii) the articles of incorporation and the corporation's certificate of registered information (including anything equivalent to these);
- (iii) the Operational Rules;
- (iv) documents stating matters relevant to the organization;
- (v) an inventory of assets, balance sheet, and any other documents clarifying that the applicant has the necessary financial basis for conducting Dispute Resolution Services, etc. which are specified by Cabinet Office Ordinance;
- (vi) the documents prescribed in paragraph (2) of the preceding Article and any other documents specified by Cabinet Office Ordinance as evidencing that the applicant satisfies the requirements set forth in item (viii) of paragraph (1) of that Article; and
- (vii) other documents specified by Cabinet Office Ordinance.

(3) In the case referred to in the preceding paragraph, if the articles of incorporation, inventory of assets, or balance sheet has been prepared as an electronic or magnetic record, such electronic or magnetic record may accompany the written application for designation in lieu of the written document.

(Duty of Confidentiality)

Article 156-41 (1) It is prohibited for a Dispute Resolution Mediator (meaning a Dispute Resolution Mediator appointed pursuant to Article 156-50, paragraph (2); the same applies in the following paragraph, paragraph (2) of the following Article, and Article 156-44, paragraphs (2) and (4)), the officer or employee of a Designated Dispute Resolution Organization, or a person that has held one of

these positions, to divulge or use for personal benefit any secret learned in connection with Dispute Resolution Services, etc.

- (2) With regard to the application of the Penal Code and other penal provisions, the Dispute Resolution Mediator or officer or employee of a Designated Dispute Resolution Organization is deemed to be an official engaged in public service pursuant to laws and regulations.

## **Section 2 Services**

(Services of a Designated Dispute Resolution Organization)

Article 156-42 (1) A Designated Dispute Resolution Organization is to perform Dispute Resolution Services, etc. pursuant to the provisions of this Act and the Operational Rules.

- (2) A Designated Dispute Resolution Organization (including a Dispute Resolution Mediator) may receive dues, fees, or any other remuneration for performing Dispute Resolution Services, etc., pursuant to the Basic Contract for the Implementation of Dispute Resolution Procedures or any other contract concluded with a member person or firm involved in Financial Instruments Transactions (meaning a person or firm involved in Financial Instruments Transactions with which a Basic Contract for the Implementation of Dispute Resolution Procedures has been concluded; hereinafter the same applies in this Chapter) that is a party to procedures or with its customer (including a rights holder prescribed in Article 42, paragraph (1) other than a customer; hereinafter the same applies in this Chapter) or concluded with a person other than such persons.

(Entrustment of the Operation of Complaint Processing Procedures or Dispute Resolution Procedures)

Article 156-43 A Designated Dispute Resolution Organization must not entrust a person other than another Designated Dispute Resolution Organization or a person that has obtained designation under the provisions of another Act which is specified by Cabinet Order as being for services equivalent to Dispute Resolution Services, etc. (such other Designated Dispute Resolution Organization or person is referred to as an "Entrusted Dispute Resolution Organization" in Article 165-50, paragraph (4) or (5)) with the operation of Complaint Processing Procedures or Dispute Resolution Procedures.

(Operational Rules)

Article 156-44 (1) A Designated Dispute Resolution Organization must establish Operational Rules in respect of the following matters:

- (i) matters relevant to the contents of the Basic Contract for the

- Implementation of Dispute Resolution Procedures;
- (ii) matters relevant to the conclusion of a Basic Contract for Implementation of Dispute Resolution Procedures;
  - (iii) matters relevant to the implementation of Dispute Resolution Services, etc.;
  - (iv) matters relevant to the dues that a member person or firm involved in Financial Instruments Transactions incurs for the cost required for Dispute Resolution Services, etc.;
  - (v) if it collects fees for implementing Dispute Resolution Services, etc. from the member person or firm involved in Financial Instruments Transactions which is a party to its services or from its customer (hereinafter, such a member person or firm or customer is simply referred to as a "Party" in this Chapter), matters relevant to those fees;
  - (vi) matters relevant to coordination with other Designated Dispute Resolution Organizations, national organs, local governments, private firms, or any other persons processing complaints or implementing dispute resolution;
  - (vii) matters relevant to the processing of complaints about Dispute Resolution Services, etc.; and
  - (viii) matters specified by Cabinet Office Ordinance as being necessary for the implementation of Dispute Resolution Services, etc., other than what is set forth in the preceding items.
- (2) The Basic Contract for the Implementation of Dispute Resolution Procedures referred to in item (i) of the preceding paragraph must have the following matters as its content:
- (i) that the Designated Dispute Resolution Organization commences Complaint Processing Procedures based on an application for the resolution of a complaint related to Financial Instruments Transaction Services from the customer of a member person or firm involved in Financial Instruments Transactions, and commences Dispute Resolution Procedures based on an application for Dispute Resolution Procedures from a Party;
  - (ii) that when the Designated Dispute Resolution Organization or Dispute Resolution Mediator commences Complaint Processing Procedures, or when one of them commences Dispute Resolution Procedures based on an application from the customer of a member person or firm involved in Financial Instruments Transactions, the Designated Dispute Resolution Organization or Dispute Resolution Mediator may request the member person or firm involved in Financial Instruments Transactions to comply with these procedures, and that the member person or firm involved in Financial Instruments Transactions must not refuse such a request without just cause for doing so;
  - (iii) that the Designated Dispute Resolution Organization or Dispute

- Resolution Mediator may request a member person or firm involved in Financial Instruments Transactions to make a report or to submit books and documents or any other articles in the course of Complaint Processing Procedures or Dispute Resolution Procedures, and that the member person or firm involved in Financial Instruments Transactions must not refuse such a request without just cause for doing so;
- (iv) that the Dispute Resolution Mediator may prepare the settlement proposal that is needed for resolving a dispute related to Financial Instruments Transaction Services in the course of Dispute Resolution Procedures, and recommend that the Parties accept it;
  - (v) that, if there is no prospect of reaching a settlement between the Parties by recommending that they accept the settlement proposal referred to in the preceding item, and the Dispute Resolution Mediator finds it to be reasonable in light of the nature of the case, the intentions of the Parties, the Parties' pursuance of the procedures, or any other circumstances, the Dispute Resolution Mediator may prepare the Special Conciliation Proposal that is needed for resolving the dispute related to Financial Instruments Transaction Services and present it to the Parties, giving them the reason for this;
  - (vi) that, if Dispute Resolution Procedures are commenced for a claim in pending litigation, the member person or firm involved in Financial Instruments Transactions must report to the Designated Dispute Resolution Organization indicating that litigation is pending, the grounds for the claim under litigation, and the progress of the litigation;
  - (vii) that, if litigation is filed in connection with a claim that is subject to Dispute Resolution Procedures, the member person or firm involved in Financial Instruments Transactions must report to the Designated Dispute Resolution Organization indicating that litigation has been filed and the grounds for the claim under litigation;
  - (viii) that, in addition to what is provided for in the preceding two items, if a member person or firm involved in Financial Instruments Transactions is requested to report the progress of litigation connected to a claim that is subject to Dispute Resolution Procedures or any other matter, it must report that matter to the Designated Dispute Resolution Organization;
  - (ix) that, if the litigation referred to in item (vi) or (viii) comes to be no longer pending before the court, or if the judicial decision on the litigation becomes final and binding, the member person or firm involved in Financial Instruments Transactions must report this to the Designated Dispute Resolution Organization and give the details thereof;
  - (x) that a member person or firm involved in Financial Instruments Transactions must provide the necessary information or take other measures

- that are necessary for informing its customers of the implementation of Dispute Resolution Services, etc. by the Designated Dispute Resolution Organization; and
- (xi) in addition to what is provided for in the preceding items, matters specified by Cabinet Office Ordinance as necessary for facilitating the processing of complaints related to Financial Instruments Transaction Services or the resolution of disputes related to Financial Instruments Transaction Services.
- (3) The Operational Rules with regard to the matters related to the conclusion of the Basic Contract for the Implementation of Dispute Resolution Procedures referred to in paragraph (1), item (ii) must have as their contents that, if the Designated Dispute Resolution Organization receives an offer to conclude a Basic Contract for the Implementation of Dispute Resolution Procedures from a member person or firm involved in Financial Instruments Transactions, unless the member person or firm involved in Financial Instruments Transactions' performance of the obligations connected with the Basic Contract for the Implementation of Dispute Resolution Procedures or any other obligations connected with the implementation of Dispute Resolution Services, etc. is expected to be unreliable, the Designated Dispute Resolution Organization must not refuse the offer.
- (4) The Operational Rules with regard to the matters set forth in paragraph (1), item (iii), must conform to the following criteria:
- (i) measures have been taken to ensure coordination between Complaint Processing Procedures and Dispute Resolution Procedures;
  - (ii) the Operational Rules establish the method for appointing a Dispute Resolution Mediator and for excluding a Dispute Resolution Mediator if that mediator has an interest in the Party to a dispute related to Financial Instruments Transaction Services or if there are any other circumstances that are likely to hinder the fair implementation of Dispute Resolution Procedures;
  - (iii) if the Designated Dispute Resolution Organization has decided to carry out operations for Dispute Resolution Procedures in a dispute related to Financial Instruments Transaction Services to which its substantial controller, etc. (meaning a person specified by Cabinet Office Ordinance as one that is related to the Designated Dispute Resolution Organization in such a way as to substantially control the business of the Designated Dispute Resolution Organization or to have a material influence on its business due to its holding of shares in the Designated Dispute Resolution Organization, its financing of the Designated Dispute Resolution Organization, or any other circumstance) or its Subsidiary Company, etc. (meaning a person specified by Cabinet Office Ordinance as one to which the Designated Dispute Resolution Organization is related in such a way as to substantially

- control its business due the holding of its shares or any other circumstance) is a Party, measures have been taken to prevent the substantial controller, etc., Subsidiary Company, etc., or Designated Dispute Resolution Organization from exercising undue influence on the Dispute Resolution Mediator;
- (iv) the Operational Rules establish measures for receiving the advice of an attorney-at-law when the Dispute Resolution Mediator is not an attorney-at-law (unless the Dispute Resolution Mediator is a judicial scrivener as prescribed in Article 3, paragraph (2) of the Judicial Scriveners Act (Act No. 197 of 1950), and the Dispute Resolution Procedures are carried out for a dispute set forth in Article 3, paragraph (1), item (vii) of that Act) and the implementation of Dispute Resolution Procedures necessitates expert knowledge with regard to the interpretation and application of laws and regulations;
  - (v) the Operational Rules establish an appropriate means of giving notice upon implementing Dispute Resolution Procedures;
  - (vi) the Operational Rules establish a standard operation process from the commencement to the termination of Dispute Resolution Procedures;
  - (vii) the Operational Rules establish the requirements and formalities for the customer of a member person or firm involved in Financial Instruments Transactions to file an application for the resolution of a complaint related to Financial Instruments Transaction Services with the Designated Dispute Resolution Organization, or for a Party to a dispute related to Financial Instruments Transaction Services to file an application for Dispute Resolution Procedures with the Designated Dispute Resolution Organization;
  - (viii) the Operational Rules establish procedures for the Designated Dispute Resolution Organization to promptly notify the customer of a member person or firm involved in Financial Instruments Transactions which is to be the other Party to a dispute related to Financial Instruments Transaction Services whenever it receives an application for Dispute Resolution Procedures from a member person or firm involved in Financial Instruments Transactions, as well as for confirming with the customer whether or not it requests the implementation of Dispute Resolution Procedures in response to this;
  - (ix) the Operational Rules establish procedures for the Designated Dispute Resolution Organization to promptly notify the member person or firm involved in Financial Instruments Transactions which is to be the other Party to a dispute related to Financial Instruments Transaction Services whenever it receives an application for Dispute Resolution Procedures as referred to in item (vii) from the customer of the member person or firm involved in Financial Instruments Transactions;

- (x) the Operational Rules establish the way of retaining, returning, and otherwise handling books and documents and any other articles submitted in the course of Dispute Resolution Procedures;
  - (xi) the Operational Rules establish a method for properly keeping the confidential information of the Parties to a dispute related to Financial Instruments Transaction s Services and of any third party, that is included in an opinion stated or books and documents or any other article submitted or presented in the course of Dispute Resolution Procedures, in accordance with the nature of the confidential information; the same applies to confidential information stated in the dispute resolution procedures record referred to in Article 156-50, paragraph (9);
  - (xii) the Operational Rules establish the requirements and formalities for the Parties to a dispute related to Financial Instruments Transaction Services to terminate the Dispute Resolution Procedures;
  - (xiii) the Operational Rules stipulate that if the Dispute Resolution Mediator judges there to be no prospect of reaching a settlement between the Parties to the dispute related to Financial Instruments Transaction Services through Dispute Resolution Procedures, the Dispute Resolution Mediator will promptly terminate the Dispute Resolution Procedures and notify the Parties to the dispute related to Financial Instruments Transaction Services of the same; and
  - (xiv) the Operational Rules establish measures for the Dispute Resolution Mediators and the officers and employees of the Designated Dispute Resolution Organization to reliably retain any confidential information learned in the course of Dispute Resolution Services, etc.
- (5) The Operational Rules with regard to the matters set forth in paragraph (1), items (iv) and (v) must conform to the following criteria:
- (i) the Operational Rules establish the amount of the dues provided for in paragraph (1), item (iv), the fees referred to in item (v) of that paragraph, or the method of calculating them, as well as the method of payment for the same (collectively referred to as the "Amount of Dues, etc." in the following item); and
  - (ii) the Amount of Dues, etc. are not such as to be extremely unreasonable.
- (6) The term "Special Conciliation Proposal" as used in paragraph (2), item (v) means a settlement proposal that the member person or firm involved in Financial Instruments Transactions must accept except in one of the following cases:
- (i) the customer of the member person or firm involved in Financial Instruments Transactions that is a Party (hereinafter simply referred to as the "Customer" in this paragraph) does not accept the settlement proposal;
  - (ii) at the time the settlement proposal is presented, litigation has not been

filed in connection with a claim subject to the Dispute Resolution Procedures, but by one month after the day on which the member person or firm involved in Financial Instruments Transactions learns that the Customer accepts the settlement proposal, litigation has been filed in connection with such a claim and not withdrawn;

- (iii) at the time the settlement proposal is presented, litigation has been filed in connection with a claim subject to the Dispute Resolution Procedures, and by one month after the day on which the member person or firm involved in Financial Instruments Transactions learns that the Customer accepts the settlement proposal, that litigation has not been withdrawn; or
- (iv) by one month after the day on which the member person or firm involved in Financial Instruments Transactions learns that the Customer accepts the settlement proposal, an arbitration agreement provided for in Article 2, paragraph (1) of the Arbitration Act (Act No. 138 of 2003) is entered into or a settlement or conciliation other than through the relevant settlement proposal is reached between the Parties with regard to the dispute related to Financial Instruments Transaction Services for which the Dispute Resolution Procedures have been implemented.

- (7) Changes to the Operational Rules do not become effective without the authorization of the Prime Minister.
- (8) Before seeking to grant the authorization under the preceding paragraph, the Prime Minister must consult the Minister of Justice as to whether the Operational Rules subject to that authorization conform to the criteria set forth in the items of paragraph (4) and the items of paragraph (5) (limited to the part related to the operation of Dispute Resolution Procedures).

(Disclosure of the Fact of a Breach of a Basic Contract for the Implementation of Dispute Resolution Procedures)

- Article 156-45 (1) If the obligations that a member business operator involved in Financial Instruments Transactions bears pursuant to a Basic Contract for the Implementation of Dispute Resolution Procedures are breached, and the Designated Dispute Resolution Organization hears the opinion of the member person or firm involved in Financial Instruments Transactions and finds there to be no legitimate reason for the breach, the Designated Dispute Resolution Organization shall disclose the trade name or name of the member person or firm involved in Financial Instruments Transactions and the fact of the breach to the public, as well as reporting it to the Prime Minister, without delay.
- (2) A Designated Dispute Resolution Organization must endeavor to provide information, consultation, and other support to member person or firms involved in Financial Instruments Transactions and to other persons, in order to preemptively prevent complaints related to Financial Instruments

Transaction Services and disputes related to Financial Instruments Transaction Services, and to facilitate the processing of complaints related to Financial Instruments Transaction Services and the resolution of disputes related to Financial Instruments Transaction Services.

(Prohibition on the Employment of a Member of an Organized Crime Group)

Article 156-46 A Designated Dispute Resolution Organization must not allow the member, etc. of an organized crime group (meaning a Member of an Organized Crime Group as defined in Article 2, item (vi) of the Act to Prevent Illegal Activities by Members of Organized Crime Groups (hereinafter referred to as the "Member of an Organized Crime Group" in this Article) or a person that has not yet had five years pass since the day on which that person ceased to be the Member of an Organized Crime Group) to engage in Dispute Resolution Services, etc., nor may it use such a person as an assistant in Dispute Resolution Services, etc.

(Prohibition on Differential Treatment)

Article 156-47 A Designated Dispute Resolution Organization must not subject any particular member person or firm involved in Financial Instruments Transactions to unfairly differential treatment.

(Archiving Records)

Article 156-48 A Designated Dispute Resolution Organization shall prepare and archive records of its Dispute Resolution Services, etc. pursuant to the provisions of Cabinet Office Ordinance, in addition to the records under the provisions of Article 156-50, paragraph (9).

(Complaint Processing Procedures by a Designated Dispute Resolution Organization)

Article 156-49 If the customer of a member person or firm involved in Financial Instruments Transactions files an application for the resolution of a complaint related to Financial Instruments Transaction Services, in addition to providing the customer with the necessary advice and investigating the circumstances to which the complaint related to Financial Instruments Transaction Services pertains based on its consultation with the customer, the Designated Dispute Resolution Organization must notify the member person or firm involved in Financial Instruments Transactions of the substance and content of the complaint related to Financial Instruments Transaction Services, and request that the member person or firm involved in Financial Instruments Transactions process the complaint expeditiously.

(Dispute Resolution Procedures by a Designated Dispute Resolution Organization)

Article 156-50 (1) The Party to a dispute related to Financial Instruments Transaction Services may file an application for Dispute Resolution Procedures with the Designated Dispute Resolution Organization with which the member person or firm involved in Financial Instruments Transactions has concluded a Basic Contract for the Implementation of Dispute Resolution Procedures, for the purpose of resolving the dispute related to the Financial Instruments Transaction Services of the member person or firm involved in Financial Instruments Transactions.

(2) When a Designated Dispute Resolution Organization receives the application referred to in the preceding paragraph, it is to appoint Dispute Resolution Mediators.

(3) Dispute Resolution Mediators are to be appointed from among persons of the highest moral character that fall under one of the following items (excluding any person that has an interest in a Party connected with the application referred to in paragraph (1)). In such a case, at least one of the Dispute Resolution Mediators must be a person that falls under item (i) or (iii) (or in item (i), (iii) or (iv), if the application pertains to a dispute provided for in Article 3, paragraph (1), item (vii) of the Judicial Scrivener Act):

(i) an attorney-at-law who has been practicing for five years or more in total;

(ii) a person that has engaged in Financial Instruments Transaction Services for ten years or more in total;

(iii) a person provided for by Cabinet Office Ordinance as having specialized knowledge of and experience in consulting on complaints that arise between consumers and person or firms in business with regard to consumer affairs or on any other consumer affairs matters;

(iv) if the application pertains to a dispute prescribed in Article 3, paragraph (1), item (vii) of the Judicial Scriveners Act, a judicial scrivener as prescribed in paragraph (2) of that Article that has engaged in summary court legal representation services, etc. as defined in that paragraph for five years or more in total; or

(v) a person specified by Cabinet Office Ordinance as being equivalent to a person set forth in one of the preceding items.

(4) A Designated Dispute Resolution Organization is to send the application referred to in paragraph (1) into Dispute Resolution Procedures by the Dispute Resolution Mediators appointed pursuant to paragraph (2) (hereinafter simply referred to as "Dispute Resolution Mediators" in this Article and paragraph (1) of the following Article); provided, however, that if the Dispute Resolution Mediators find that it is not appropriate to carry out Dispute Resolution Procedures due to it being found that the customer of the member person or

firm involved in Financial Instruments Transactions that is a Party under that application has sufficient ability to properly resolve the dispute related to Financial Instruments Transaction Services or due to any other grounds, or if the Dispute Resolution Mediators find that a Party has filed the application referred to in paragraph (1) for unjust purposes and without due cause, they are not to implement Dispute Resolution Procedures, and if the Dispute Resolution Mediators find it to be appropriate to send the application into procedures equivalent to Dispute Resolution Procedures at an Entrusted Dispute Resolution Organization, the Designated Dispute Resolution Organization is to entrust the operation of Dispute Resolution Procedures to an Entrusted Dispute Resolution Organization.

- (5) If the Dispute Resolution Mediators decide not to implement Dispute Resolution Procedures pursuant to the proviso to the preceding paragraph, or if they decide to entrust the operation to an Entrusted Dispute Resolution Organization, the Designated Dispute Resolution Organization is to notify the person that filed the application referred to in paragraph (1), indicating that they have done so and giving the reason.
- (6) A Dispute Resolution Mediator may hear the opinions of the Parties and witnesses, request them to submit written reports, request the Parties to submit books and documents or other articles that should serve as a reference, prepare the settlement proposal that is needed to resolve the case and recommend that the Parties accept it, or implement a special conciliation (meaning presenting the Special Conciliation Proposal provided for in Article 56-44, paragraph (6)).
- (7) Dispute Resolution Procedures are not open to the public; provided, however, that a Dispute Resolution Mediator may allow the attendance of a person that is considered to be appropriate, with the consent of the Parties.
- (8) Prior to the commencement of Dispute Resolution Procedures and pursuant to the provisions of Cabinet Office Ordinance, a Designated Dispute Resolution Organization must deliver a document that states the following particulars or provide an electronic or magnetic record in which these have been recorded to the customer of the member person or firm involved in Financial Instruments Transactions that is a Party to the dispute, and give an explanation of the same:
  - (i) the particulars of the fees to be paid by the customer;
  - (ii) the standard operation process from the commencement to the termination of Dispute Resolution Procedures, as provided in Article 156-44, paragraph (4), item (vi); and
  - (iii) in addition to what is set forth in the preceding two items, matters specified by Cabinet Office Ordinance.
- (9) A Designated Dispute Resolution Organization shall prepare and archive a

dispute resolution procedures record detailing the following matters with regard to the Dispute Resolution Procedures it implemented, pursuant to the provisions of Cabinet Office Ordinance:

- (i) the date on which the Party to the dispute related to Financial Instruments Transaction Services filed the application for Dispute Resolution Procedures;
- (ii) the name or trade name of the Parties to the dispute related to Financial Instruments Transaction Services and the agents thereof;
- (iii) the names of the Dispute Resolution Mediators;
- (iv) the particulars of the Dispute Resolution Procedures;
- (v) the results of the Dispute Resolution Procedures (including the reasons for the termination of Dispute Resolution Procedures and the date thereof); and
- (vi) the particulars necessary for clarifying the contents of the implemented Dispute Resolution Procedures which are specified by Cabinet Office Ordinance, other than what is set forth in the preceding items.

(Interruption of Prescription)

Article 156-51 (1) If the Dispute Resolution Mediators terminate Dispute Resolution Procedures on the grounds that there is no prospect of reaching a settlement between the Parties to a dispute related to Financial Instruments Transaction Services through Dispute Resolution Procedures, and the Party to the dispute related to Financial Instruments Transaction Services which filed the application for Dispute Resolution Procedures files an action on a claim that was subject to the Dispute Resolution Procedures within one month from the day on which that Party receives notice of the termination, the action is deemed to have been filed at the time that the claim was filed in Dispute Resolution Procedures in terms of the interruption of prescription.

(2) The provisions of the preceding paragraph also apply if the discontinuation of Dispute Resolution Services, etc. by a Designated Dispute Resolution Organization is authorized pursuant to Article 156-60, paragraph (1) or if the designation under Article 156-39, paragraph (1) is rescinded pursuant to Article 156-61, paragraph (1) and there is a dispute related to Financial Instruments Transaction Services for which Dispute Resolution Procedures have been implemented as of the day of authorization or rescission, and the Party to the dispute related to Financial Instruments Transaction Services which has filed the application for Dispute Resolution Procedures files an action on a claim that was subject to those Dispute Resolution Procedures within one month from the day on which the Party receives the notice under Article 156-60, paragraph (3) or Article 156-61, paragraph (3), or within one month from the day on which the Party comes to know of the authorization or rescission, whichever comes earlier.

(Suspension of Court Proceedings)

Article 156-52 (1) If litigation is pending with regard to a dispute related to Financial Instruments Transaction Services between the Parties to a dispute related to Financial Instruments Transaction Services, and if any of the following grounds exist and the Parties to the dispute related to Financial Instruments Transaction Services file a joint petition, the court in charge of the case may decide to suspend the court proceedings for a fixed period of no longer than four months:

- (i) Dispute Resolution Procedures have been implemented for a dispute related to Financial Instruments Transaction Services, between the Parties to the relevant dispute related to Financial Instruments Transaction Services; and
  - (ii) in addition to the case referred to in the preceding item, the Parties to the dispute related to Financial Instruments Transaction Services reach an agreement to endeavor to resolve the dispute related to Financial Instruments Transaction Services through Dispute Resolution Procedures.
- (2) The court in charge of the case may rescind the decision referred to in the preceding paragraph at any time.
- (3) No appeal may be entered against a decision dismissing the petition referred to in paragraph (1) or a decision rescinding the decision referred to in paragraph (1).

(Public Inspection of the Register of Member Persons and Firms Involved in Financial Instruments Transactions)

Article 156-53 A Designated Dispute Resolution Organization must make the register of member persons and firms involved in Financial Instruments Transactions available for public inspection.

(Restriction on the Use of Names)

Article 156-54 A person that is not a Designated Dispute Resolution Organization (other than a person that has obtained the designation under Article 52-62, paragraph (1) of the Banking Act or any other person specified by Cabinet Order as being similar thereto) must not use a term in its name or trade name which could give rise to the misconception that it is a Designated Dispute Resolution Organization.

### **Section 3 Supervision**

(Notification of a Change)

Article 156-55 (1) If a particular set forth in Article 156-40, paragraph (1), item (ii) to (iv) inclusive changes, the Designated Dispute Resolution Organization must notify the Prime Minister of this.

(2) If the Prime Minister is notified of a change in the trade name or name of a Designated Dispute Resolution Organization or in the location of its principal business office or office, the Prime Minister must give public notice of this in the official gazette.

(Notification of the Conclusion of a Basic Contract for the Implementation of Dispute Resolution Procedures)

Article 156-56 If a Designated Dispute Resolution Organization falls under one of the following items, it must notify the Prime Minister of this pursuant to the provisions of Cabinet Office Ordinance:

- (i) it concludes a Basic Contract for the Implementation of Dispute Resolution Procedures with a person or firm involved in Financial Instruments Transactions, or it terminates such a Basic Contract for the Implementation of Dispute Resolution Procedures; and
- (ii) cases other than what is set forth in the preceding item, which are specified by Cabinet Office Ordinance.

(Submission of Business Reports)

Article 156-57 (1) Each business year, a Designated Dispute Resolution Organization shall prepare a report on the Dispute Resolution Services, etc. in that business year and submit it to the Prime Minister.

(2) The particulars for inclusion in the report referred to the preceding paragraph, the submission date, and other necessary particulars are specified by Cabinet Office Ordinance.

(Collection of Reports and On-Site Inspections)

Article 156-58 (1) If the Prime Minister finds it to be necessary for the fair and appropriate execution of Dispute Resolution Services, etc., the Prime Minister may order a Designated Dispute Resolution Organization to make reports or submit materials relevant to its business, and may have the relevant officials enter the business office, office, or any other facilities of the Designated Dispute Resolution Organization to ask questions about the state of the business of the Designated Dispute Resolution Organization or to inspect its books and documents or any other articles.

(2) If the Prime Minister finds it to be particularly necessary for the fair and appropriate execution of Dispute Resolution Services, etc., the Prime Minister, within the scope of this necessity, may order a Designated Dispute Resolution Organization's member person or firm involved in Financial Instruments Transactions or the person that a Designated Dispute Resolution Organization has entrusted with its business, to make reports or submit materials, and may have the relevant officials enter the business office, office, or any other

facilities of such persons, ask questions about the state of the business of the Designated Dispute Resolution Organization, or inspect their books and documents or any other articles.

(Business Improvement Orders)

Article 156-59 (1) If the Prime Minister finds it to be necessary for ensuring the fair and appropriate execution of Dispute Resolution Services, etc. as concerns a Designated Dispute Resolution Organization's operation of Dispute Resolution Services, etc., the Prime Minister, within the scope of this necessity, may order the Designated Dispute Resolution Organization to take measures that are necessary for improving its business operations.

(2) If a Designated Dispute Resolution Organization falls under one of the following items, the Prime Minister must consult with the Minister of Justice before seeking to give the order under the preceding paragraph:

(i) it comes to no longer satisfy the requirements set forth in Article 156-39, paragraph (1), items (v) to (vii) inclusive (limited to the part that involves the operation of Dispute Resolution Procedures, the requirement set forth in item (vii) of that paragraph involving the criteria set forth in the items of Article 156-44, paragraph (4) or the items of paragraph (5) of that Article; hereinafter the same applies in this item), or it is found to be likely that it will come to no longer satisfy the requirements set forth in Article 156-39, paragraph (1), items (v) to (vii) inclusive; or

(ii) it violates the provisions of Article 156-42, Article 156-43, Article 156-46, or Article 156-50 (but only if such violation is related to the operation of Dispute Resolution Procedures).

(Suspension or Discontinuation of Dispute Resolution Services, etc.)

Article 156-60 (1) A Designated Dispute Resolution Organization must obtain the authorization of the Prime Minister if it seeks to suspend (excluding suspension on the grounds prescribed in the following paragraph) or discontinue the whole or part of the Dispute Resolution Services, etc.

(2) If a Designated Dispute Resolution Organization suspends all or part of its Dispute Resolution Services, etc. due to a natural disaster or for any other compelling reason, it must immediately notify the Prime Minister of this, indicating that it has done so and giving the reason. The same applies when the Designated Dispute Resolution Organization recommences all or a part of the Dispute Resolution Services, etc. so suspended.

(3) A Designated Dispute Resolution Organization that obtains the authorization for suspension or discontinuation under paragraph (1) or that implements the suspension referred to in the preceding paragraph must notify a Party for which Complaint Processing Procedures or Dispute Resolution Procedures have

been implemented as of the day of the suspension or discontinuation (if the Designated Dispute Resolution Organization has been entrusted with business by another Designated Dispute Resolution Organization or by a person that has obtained a designation under the provisions of other Acts which is specified by Cabinet Order as being connected with business equivalent to Dispute Resolution Services, etc. (hereinafter collectively referred to as an "Entrusting Dispute Resolution Organization" in this paragraph), this includes procedures for processing complaints for the Entrusting Dispute Resolution Organization in connection with that entrustment and procedures for resolving disputes that have been implemented as of the day of the suspension or discontinuation; the same applies in paragraph (3) of the following Article), the member persons and firms involved in Financial Instruments Transactions that are not Parties, and other Designated Dispute Resolution Organizations, of the suspension or discontinuation, within two weeks from the day of the suspension or discontinuation. The same applies if the Designated Dispute Resolution Organization recommences all or a part of Dispute Resolution Services, etc. so suspended.

(Rescission of a Designation)

Article 156-61 (1) If a Designated Dispute Resolution Organization falls under one of the following items, the Prime Minister may rescind the designation under Article 156-39, paragraph (1) or order the suspension of all or a part of its business activities during a fixed period of no longer than six months:

- (i) it comes to no longer satisfy the requirements set forth in Article 156-39, paragraph (1), items (ii) to (vii) inclusive, or it is discovered not to have fallen under one of the items of that paragraph at the time it obtained the designation;
- (ii) it has obtained the designation under Article 156-39, paragraph (1) by wrongful means; or
- (iii) it violates a law or regulation or a disposition based on a law or regulation.

(2) If a Designated Dispute Resolution Organization falls under one of the following items, the Prime Minister must consult with the Minister of Justice before seeking to issue a disposition or order under the preceding paragraph:

- (i) it comes to no longer satisfy the requirements set forth in Article 156-39, paragraph (1), items (v) to (vii) inclusive (limited to the part that involves the operation of Dispute Resolution Procedures; the requirement set forth in item (vii) of that paragraph is limited to that which is related to the criteria set forth in the items of Article 156-44, paragraph (4) or the items of paragraph (5) of that Article; hereinafter the same applies in this item), or it is discovered not to have satisfied the requirements set forth in Article 156-39, paragraph (1), items (v) to (vii) inclusive at the time it obtained the

- designation under Article 156-29, paragraph (1); or
- (ii) it violates the provisions of Article 156-42, Article 156-43, Article 156-46, or Article 156-50 (but only if that violation is related to the operation of Dispute Resolution Procedures).
- (3) A person that is issued a disposition for the rescission of a designation under Article 156-39, paragraph (1) or an order for the suspension of all or a part of its business activities pursuant to the provisions of paragraph (1) must notify a Party for which Complaint Processing Procedures or Dispute Resolution Procedures have been implemented as of the day of that disposition or order, the member persons and firms involved in Financial Instruments Transactions that are not Parties, and other Designated Dispute Resolution Organizations, that it has been issued the disposition or order, within two weeks from the day of the disposition or order.
- (4) If the Prime Minister rescinds a designation under Article 156-39, paragraph (1) pursuant to the provisions of paragraph (1), the Prime Minister must give public notice of this in the official gazette.

## **Chapter V-6 Trade Repositories**

### **Section 1 Centralization of Clearing**

Article 156-62 If a Financial Services Provider, etc. conducts a transaction set forth in one of the following items, it must have the person prescribed in the relevant item bear its obligations and the counterparty's obligations from that transaction:

- (i) the Over-the-Counter Derivatives Transactions and other transactions specified by Cabinet Office Ordinance as those which, in light of the transaction volume and other conditions of the transaction, if defaulted on, the default could have a material impact on Japan's capital market, and which, in consideration of the character of the transaction, need to be cleared in Japan: a Financial Instruments Clearing Organization
- (ii) the Over-the-Counter Derivatives Transactions and other transactions specified by Cabinet Office Ordinance as those which, in light of the transaction volume and other conditions of the transaction, if defaulted on, the default could have a material impact on Japan's capital market (other than a transaction set forth in the preceding item): a Financial Instruments Clearing Organization (if the Financial Instruments Clearing Organization provides collaborative Financial Instruments Debt Assumption Services, this includes the collaborating Clearing Organization, etc. ) or Foreign Financial Instruments Clearing Organization

### **Section 2 Archiving and Reporting Trade Data**

(The Archiving and Reporting of Trade Data by a Financial Instruments Clearing Organization, etc.)

Article 156-63 (1) A Financial Instruments Clearing Organization, etc. (meaning a Financial Instruments Clearing Organization or Foreign Financial Instruments Clearing Organization; hereinafter the same applies in this Section) must prepare and archive records of the particulars specified by Cabinet Office Ordinance as regards data on centrally cleared trades (meaning data on the transactions set forth in the items of the preceding Article and other transactions that are specified by Cabinet Office Ordinance in consideration of the conditions of the transaction, in which the Financial Instruments Clearing Organization, etc. bears the obligations; hereinafter the same applies in this Section), pursuant to the provisions of Cabinet Office Ordinance.

(2) A Financial Instruments Clearing Organization, etc. must report the data on centrally cleared trades it archives to the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance.

(The Archiving and Reporting of Trade Data by a Financial Services Provider, etc.)

Article 156-64 (1) A Financial Services Provider, etc. must prepare and archive records on the particulars specified by Cabinet Office Ordinance as regards trade data (meaning data on the transactions specified by Cabinet Office Ordinance as those whose conditions need to be clarified for purposes of investor protection (excluding data on centrally cleared trades); hereinafter the same applies in this Chapter), pursuant to the provisions of Cabinet Office Ordinance.

(2) A Financial Services Provider, etc. must report the trade data it archives to the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance.

(3) The provisions of the preceding two paragraphs do not apply to cases in which a Financial Services Provider, etc. provides trade data to a trade repository (meaning a person that has obtained the designation under the provisions of Article 156-67, paragraph (1); the same applies hereinafter) or a designated foreign trade repository (meaning a person that performs services similar to trade repository services (meaning services involving the collection and archiving of trade data; the same applies hereinafter) in a foreign state, and which the Prime Minister designates as a person from which the Prime Minister expects to obtain the trade data that the person collects and archives), pursuant to the provisions of Cabinet Office Ordinance.

(The Archiving and Reporting of Trade Data by Trade Repositories)

Article 156-65 (1) A trade repository shall prepare and archive records of the particulars specified by Cabinet Office Ordinance as regards trade data about transactions subject to trade repository services, pursuant to the provisions of Cabinet Office Ordinance.

(2) A trade repository shall report the trade data it archives to the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance.

(Disclosure of Trade Data)

Article 156-66 (1) The Prime Minister is to disclose the scale of the transactions that are subject to reporting under the provisions of Article 156-63, paragraph (2), Article 156-64, paragraph (2) and paragraph (2) of the preceding Article, and particulars that are otherwise necessary for giving a clear outline of such transactions.

(2) If the Prime Minister finds it to be necessary, the Prime Minister may order a Financial Instruments Clearing Organization, etc. or a trade repository to disclose the data on centrally cleared trades it archives or the scale of transactions that are the subject of trade data and particulars that are otherwise necessary for giving a clear outline of such transactions.

### **Section 3 Trade Repositories**

(Designation of an Entity to Perform Trade Repository Services)

Article 156-67 (1) At the application of an entity satisfying the following requirements, the Prime Minister may designate that entity as an entity that performs trade repository services pursuant to the provisions of this Section:

(i) it is a corporation (including an organization without legal personality for which a representative or administrator has been designated and excluding a corporation incorporated based on foreign laws and regulations or any other foreign organization);

(ii) it does not fall under the category of an entity that has had a designation under this paragraph rescinded pursuant to Article 156-83, paragraph (1) and not yet had five years pass since the date of the rescission;

(iii) it does not fall under the category of an entity that has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of this Act or for violating the provisions of a foreign law or regulation that is equivalent to this Act and not yet had five years pass since the day on which it finished serving the sentence or ceased to be subject to its enforcement;

(iv) it has no officer (including the representative or administrator of an organization without legal personality for which a representative or administrator has been designated; hereinafter the same applies in this

- Section) that falls under one of the following categories of persons:
- (a) an adult ward or a person under curatorship, or a person that is treated in the same manner under foreign laws and regulations;
  - (b) a bankrupt that has not obtained a restoration of rights, or a person that is treated in the same manner under foreign laws and regulations;
  - (c) a person that has been sentenced to imprisonment or a heavier punishment (including an equivalent sentence under foreign laws and regulations), if five years have not yet passed since the day on which the person finished serving the sentence or ceased to be subject to its enforcement;
  - (d) a person that, during the 30 days prior to the date of rescission, was the officer (including a person treated in the same manner under foreign laws and regulations; the same applies in this sub-item (e)) of a corporation (including an organization without legal personality for which a representative or administrator has been designated and a corporation incorporated based on foreign laws and regulations or any other foreign organization), in a case in which the designation under this paragraph has been rescinded pursuant to the provisions of Article 156-83, paragraph (1) or in a case in which an administrative disposition that is similar to such a designation and that has been issued in a foreign state pursuant to the provisions of a foreign law or regulation that is equivalent to this Act, has been rescinded; if five years have not yet passed since the date of the rescission;
  - (e) a person falling under the category of an officer whose dismissal has been ordered pursuant to the provisions of Article 156-83, paragraph (1) or the provisions of a foreign law or regulation that is equivalent to this Act, if five years have not yet passed since the day of the disposition; or
  - (f) a person that has been sentenced to a fine (including an equivalent sentence under foreign laws and regulations) for violating the provisions of this Act or for violating the provisions of a foreign law or regulation that is equivalent to this Act, if five years have not yet passed since the day on which the person finished serving the sentence or ceased to be subject to its enforcement.
  - (v) the relevant entity has a sufficient financial basis to soundly perform trade repository services, and has good prospects in terms of expected income and expenditures in connection with the trade repository services; and
  - (vi) in light of its personnel structure, the relevant entity is found to have sufficient knowledge and experience for conducting trade repository services properly and reliably, and to have sufficient social credibility.
- (2) Upon making a designation under the preceding paragraph, the Prime Minister must make public notice of the trade name or name and the location

of the principal business office or office of the trade repository, and of the day on which the Prime Minister made that designation, in the official gazette.

(Application for Designation)

Article 156-68 (1) An entity seeking designation under paragraph (1) of the preceding Article must submit a written application for designation to the Prime Minister, in which it states the following particulars:

- (i) its trade name or name;
- (ii) the name and location of its principal business office or office and any other business offices or offices for trade repository services;
- (iii) the names or trade names of its officers;
- (iv) transactions subject to trade repository services; and
- (v) if the entity conducts business other than trade repository services and business incidental to trade repository services, the outline of that business.

(2) The following documents must accompany the written application for designation referred to in the preceding paragraph:

- (i) a document pledging that the applicant satisfies the requirements set forth in items (iii) and (iv) of paragraph (1) of the preceding Article;
- (ii) the articles of incorporation and certificate of registered matters of the corporation (including those equivalent thereto);
- (iii) its Operational Rules;
- (iv) an inventory of assets, balance sheet, profit and loss statement or income statement, and business report;
- (v) documents stating expected income and expenditures; and
- (vi) documents other than what is set forth in the preceding items, which are specified by Cabinet Office Ordinance.

(3) In the case referred to in the preceding paragraph, if the articles of incorporation, inventory of assets, balance sheet, profit and loss statement or income statement, or business report has been prepared as an electronic or magnetic record, such electronic or magnetic record may accompany the written application for designation in lieu of the written document.

(Restriction on the Concurrent Holding of Positions by the Officers of a Trade Repository)

Article 156-69 Unless the representative of a trade repository or an officer engaging in its day-to-day business obtains the authorization of the Prime Minister to do so, it is prohibited for that representative or officer to become the representative of a Financial Services Provider, etc. or other corporation specified by Cabinet Office Ordinance or engage in its day-to-day business, or for that representative or officer to engage in Financial Instruments Business or any other business specified by Cabinet Office Ordinance.

(Duty of Confidentiality)

Article 156-70 It is prohibited for the officer or employee of a trade repository or a person that has held one of these positions to divulge or misappropriate any secret learned in connection with trade repository services.

(The Services of a Trade Repository)

Article 156-71 A trade repository is to conduct trade repository services pursuant to the provisions of this Section and its Operational Rules.

(Restriction on Concurrent Business)

Article 156-72 (1) A trade repository may not conduct business other than trade repository services and business incidental thereto; provided, however, that this does not apply if the trade repository has obtained the approval of the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, for business that is found to be unlikely to compromise the trade repository's ability to properly and reliably conduct trade repository services.

(2) If a trade repository discontinues business for which it has obtained the approval referred to in the proviso to the preceding paragraph, that approval ceases to be valid. In such a case, the trade repository must notify the Prime Minister of this pursuant to the provisions of Cabinet Office Ordinance.

(3) If the written application for designation referred to in Article 156-68, paragraph (1) states that the applicant will conduct business other than trade repository services and business incidental thereto, and the applicant has received a designation under the provisions of Article 156-67, paragraph (1), the applicant is deemed to have obtained the approval referred to in the proviso to paragraph (1) for conducting that business.

(Entrustment of Part of Trade Repository Services)

Article 156-73 (1) A trade repository may entrust a part of trade repository services to another party with the approval of the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance.

(2) A person that takes on an entrustment under the provisions of the preceding paragraph may further entrust a part of the trade repository services with which it is entrusted, with the consent of the entrusting trade repository.

(3) A person that takes on an entrustment under the provisions of the preceding paragraph may further entrust a part of the trade repository services with which it is entrusted, with the consent of the person taking on the entrustment provided for in that paragraph and the trade repository referred to in that paragraph.

(Approval of the Operational Rules)

Article 156-74 (1) A trade repository must establish Operational Rules in respect of the following matters relevant to its trade repository services and obtain the authorization of the Prime Minister for them. The same applies if the trade repository seeks to change the Operational Rules:

- (i) matters relevant to the transactions that are subject to trade repository services in connection with the conclusion of a contract with a Financial Services Provider, etc. to be provided with trade data (hereinafter referred to as "Contract for Trade Data Collection");
  - (ii) matters relevant to the transactions that are subject to trade repository services;
  - (iii) matters relevant to the collection and archiving of trade data;
  - (iv) matters relevant to preventing the improper disclosure, loss, or damage of trade data, and other matters relevant to the secure management of trade data;
  - (v) matters relevant to ensuring the accuracy of trade data;
  - (vi) matters relevant to fees;
  - (vii) if it entrusts a part of trade repository services to another party, matters relevant to the measures for ensuring that the entrusted business is performed properly and reliably; and
  - (viii) matters specified by Cabinet Office Ordinance as being necessary for the implementation of trade repository services, other than what is set forth in the preceding items.
- (2) The Operational Rules on the matters set forth in item (vi) of the preceding paragraph must have as their content that the fees for trade repository services are to be fair and proper in light of reasonable costs under efficient business operations.
- (3) If the Prime Minister finds that Operational Rules for which the Prime Minister has given the approval referred to in paragraph (1) have become inappropriate from the perspective of the proper and reliable implementation of trade repository services, the Prime Minister may order the trade repository to change those Operational Rules.

(Prohibition on Differential Treatment)

Article 156-75 A trade repository must not subject any particular Financial Services Provider, etc. to unfairly differential treatment.

(Restriction on the Use of Names)

Article 156-76 A person that is not a trade repository must not use a term in its name or trade name which could give rise to the misconception that it is a trade repository.

(Notification of a Change)

Article 156-77 (1) If a particular set forth in Article 156-68, paragraph (1), items (i) to (iii) inclusive changes, the trade repository must notify the Prime Minister of this.

(2) If the Prime Minister is notified of a change in the trade name or name of a trade repository or in the location of its principal business office or office pursuant to the provisions of the preceding paragraph, the Prime Minister must give public notice of this in the official gazette.

(Notification of the Commencement of Approved Concurrent Business)

Article 156-78 (1) When a trade repository commences business for which it has obtained the approval referred to in the proviso to paragraph (1) of Article 156-72, it must notify the Prime Minister of this pursuant to the provisions of Cabinet Office Ordinance.

(2) When the representative or an officer engaged in the day-to-day business of a trade repository who has been granted the authorization referred to in Article 156-69 becomes the representative of the corporation for which that authorization has been granted or comes to engage in that corporation's day-to-day business, or when such a representative or officer commences the business for which that authorization has been granted, the representative or officer shall notify the Prime Minister of this pursuant to the provisions of Cabinet Office Ordinance.

(3) If a trade repository changes the articles of incorporation (including anything equivalent to these) or when specified by Cabinet Office Ordinance, the trade repository must notify the Prime Minister of this, pursuant to the provisions of Cabinet Office Ordinance.

(Submission of Business and Asset Reports)

Article 156-79 (1) Each business year, a trade repository shall prepare a report on its business and assets in the relevant business year and submit it to the Prime Minister.

(2) The particulars for inclusion in the report referred to in the preceding paragraph, the submission date, and other necessary particulars relevant to the preparation and submission of such a report, are specified by Cabinet Office Ordinance.

(Collection of Reports and Inspections)

Article 156-80 Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a trade repository, a person that has concluded a Contract

for Trade Data Collection with a trade repository, or a person that has taken on the entrustment under the provisions of the paragraphs of Article 156-73, to submit reports or materials that should serve as a reference with regard to the business or assets of the trade repository, and may have the relevant officials inspect the state of the business or assets, or the books and documents or any other articles, of a trade repository or a person that has taken on the entrustment under the provisions of the paragraphs of that Article (but may only have the relevant officials inspect a person that has taken on the entrustment under the provisions of the paragraphs of that Article as is necessary in connection with the business or assets of the trade repository).

(Business Improvement Orders)

Article 156-81 If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors as concerns a trade repository's operation of trade repository services or the state of its assets, the Prime Minister, within the scope of this necessity, may order the trade repository to take measures that are necessary for improving its business operations or the state of its assets.

(Suspension or Discontinuation of Trade Repository Services)

Article 156-82 (1) A trade repository must obtain the authorization of the Prime Minister if it seeks to suspend (excluding a suspension on the grounds prescribed in the following paragraph) the whole or part of its trade repository services or to discontinue its trade repository services.

(2) If a trade repository suspends all or part of its trade repository services due to a natural disaster or for any other compelling reason, it must immediately notify the Prime Minister of this, indicating that it has done so and giving the reason, as well as notifying persons with which the trade repository has concluded a Contract for Trade Data Collection. The same applies when the trade repository recommences all or part of the trade repository services so suspended.

(Rescission of a Designation)

Article 156-83 (1) If a trade repository falls under one of the following items, the Prime Minister may rescind the designation under Article 156-67, paragraph (1) or the approval set forth in the proviso to Article 156-72, paragraph (1), order the suspension of all or a part of its business activities during a fixed period of no longer than six months, or order the dismissal of its officers:

(i) it comes to no longer satisfy the requirements set forth in Article 156-67 paragraph (1), items (iii) to (vi) inclusive, or it is discovered not to have fallen under one of the items of that paragraph at the time it obtained the

- designation;
- (ii) it has obtained the designation under Article 156-67, paragraph (1) by wrongful means; or
  - (iii) it violates a law or regulation or a disposition that is based on a law or regulation.
- (2) If the Prime Minister rescinds a designation under Article 156-67, paragraph (1) pursuant to the provisions of the preceding paragraph, the Prime Minister must make a public notice of this in the official gazette.

(Order to Transfer Trade Repository Services)

Article 156-84 (1) If a trade repository falls under one of the following items, the Prime Minister may order the trade repository to have all or part of its trade repository services conducted by another trade repository:

- (i) the Prime Minister rescinds its designation under Article 156-67, paragraph (1) rescinded pursuant to the provisions of paragraph (1) of the preceding Article or orders it to suspend all or a part of its business activities (limited to trade repository services);
  - (ii) the Prime Minister grants the authorization referred to in Article 156-82, paragraph (1);
  - (iii) it is found to be likely for circumstances to occur in which the payment of debt that is due and payable substantially compromises the continuation of trade repository services, or for a fact to occur that causes the commencement of bankruptcy proceedings; or
  - (iv) it has become difficult for the trade repository to implement all or part of its trade repository services due to a natural disaster or any other reason.
- (2) If the Prime Minister issues an order under the provisions of the preceding paragraph, the Prime Minister must make a public notice of this in the official gazette.

## **Chapter VI Regulations on Securities Transactions**

(Prohibition of Wrongful Acts)

Article 157 It is prohibited for any person to engage in the following acts:

- (i) using wrongful means, schemes, or techniques in a purchase and sale or other transaction of Securities or in a Derivatives Transaction, etc.;
- (ii) acquiring money or other property through the use of a document, or by giving any other indication, that contains a false representation about a material particular or that omits a representation as to a material particular that is necessary to prevent it from being misleading, with regard to the purchase and sale or other transaction of Securities or a Derivatives Transaction, etc.; or

(iii) using false quotations in order to induce a purchase and sale or other transaction of Securities or a Derivatives Transaction, etc.

(Prohibition on the Spreading of Rumors, the Use of Fraudulent Means, and Assault and Intimidation)

Article 158 It is prohibited for any person to spread rumors, to use fraudulent means, or to commit assault or use intimidation for the purpose of carrying out a Public Offering, Secondary Distribution, purchase and sale or other transaction of Securities, or a Derivatives Transaction, etc. or for the purpose of causing a fluctuation in the market price of a Security, etc. (meaning a Security, an Option, or a Financial Instrument (other than a Security) or Financial Indicator that is connected with a Derivatives Transaction; the same applies in Article 168, paragraph (1), Article 173, paragraph (1) and Article 197, paragraph (2)).

(Prohibition on Market Manipulation)

Article 159 (1) It is prohibited for any person to engage in one of the following acts with the aim of misleading others into believing that purchase and sales of Securities (limited to purchase and sales of Securities that are listed on a Financial Instruments Exchange, Over-the-Counter Traded Securities, or Tradable Securities; hereinafter the same applies in this Article), Market Transactions of Derivatives, or Over-the-Counter Derivatives Transactions (limited to those involving Financial Instruments listed on a Financial Instruments Exchange, Over-the-Counter Traded Securities, or Tradable Securities (including Financial Indicators calculated based on their prices or interest rates) or Financial Indicators that are listed on a Financial Instruments Exchange; hereinafter the same applies in this Article) are thriving, or otherwise misleading others about the state of these transactions:

- (i) conducting a false purchase and sale of Securities, a false Market Transaction of Derivatives (limited to one specified in Article 2, paragraph (21), item (i)), or a false Over-the-Counter Derivatives Transaction (limited to one specified in Article 2, paragraph (22), item (i)) without the intent to transfer the rights;
- (ii) conducting a false Market Transaction of Derivatives (limited to one specified in Article 2, paragraph (21), items (ii), (iv), or (v)) or a false Over-the-Counter Derivatives Transaction (limited to one specified in Article 2, paragraph (22), items (ii), (v) and (vi)) without the intent to pay or receive money;
- (iii) conducting a false Market Transaction of Derivatives (limited to one specified in Article 2, paragraph (21), item (iii)) or a false Over-the-Counter Derivatives Transaction (limited to one specified in Article 2, paragraph (22)),

- item (iii) or (iv)) without the intent to grant or acquire the Options;
  - (iv) selling Financial Instruments (limited to a sale conducted through a transaction set forth in Article 2, paragraph (21), item (i) or paragraph (22), item (i) of that Article, if they are Financial Instruments other than Securities) after colluding in advance with another party that promises to purchase the Financial Instruments at the same price and around the same time as the sale (limited to a purchase conducted through a transaction set forth in Article 2, paragraph (21), item (i) or paragraph (22), item (i) of that Article, if they are Financial Instruments other than Securities);
  - (v) purchasing Financial Instruments (limited to a purchase conducted through a transaction set forth in Article 2, paragraph (21), item (i) or paragraph (22), item (i) of that Article, if they are Financial Instruments other than Securities) after colluding in advance with another party that promises to sell the Financial Instruments at the same price and around the same time as the purchase (limited to a sale conducted through a transaction set forth in Article 2, paragraph (21), item (i) or paragraph (22), item (i) of that Article, if they are Financial Instruments other than Securities);
  - (vi) making an offer in connection with a Market Transaction of Derivatives (limited to one set forth in Article 2, paragraph (21), item (ii)) or an Over-the-Counter Derivatives Transaction (limited to one set forth in paragraph (22), item (ii) of that Article) after colluding in advance with another party that promises to become the other party to the transaction at around the same time as the offer and at the same Agreed Figure as in the offered transaction;
  - (vii) making an offer in connection with a Market Transaction of Derivatives (limited to one set forth in Article 2, paragraph (21), item (iii)) or an Over-the-Counter Derivatives Transaction (limited to one set forth in paragraph (22), item (iii) or (iv) of that Article) after colluding in advance with another party that promises to become the other party to the transaction at around the same time as the offer and for the same amount of consideration as in the offered transaction;
  - (viii) making an offer in connection with a Market Transaction of Derivatives (limited to one set forth in Article 2, paragraph (21), items (iv) and (v)) or Over-the-Counter Derivatives Transaction (limited to one set forth in paragraph (22), item (v) or (vi) of that Article) after colluding in advance with another party that promises to become the other party to the transaction at around the same time as the offer and with the same conditions as in the offered transaction; or
  - (ix) entrusting, etc. a person, etc. with an act set forth in the preceding items or becoming entrusted, etc. with such an act.
- (2) It is prohibited for any person to engage in one of the following acts for the

purpose of inducing purchase and sales of Securities, Market Transactions of Derivatives, or Over-the-Counter Derivatives Transactions (hereinafter referred to "Purchase and Sales of Securities, etc." in this Article):

- (i) conducting a series of Purchase and Sales of Securities, etc. that are likely to mislead a person into believing that Purchase and Sales of Securities, etc. are thriving or to cause fluctuations in market prices of listed Financial Instruments, etc. (meaning Financial Instruments, Financial Indicators, or Options listed on a Financial Instruments Exchange Market; hereinafter the same applies in this Article) on a Financial Instruments Exchange Market or prices of Over-the-Counter Traded Securities on an Over-the-Counter Securities Market; offering to conduct such transactions; entrusting, etc. a person with conducting such transactions; or becoming entrusted, etc. with conducting such transactions;
  - (ii) spreading a rumor that market prices of listed Financial Instruments, etc. on a Financial Instruments Exchange Market or market prices of Over-the-Counter Traded Securities on an Over-the-Counter Securities Market will fluctuate due to one's own or another party's market manipulation; or
  - (iii) intentionally making a false representation about a material particular or a representation that is likely to mislead, in conducting a Purchase and Sale of Securities, etc.
- (3) It is prohibited for any person to effect a series of Purchase and Sales of Securities, etc., to offer to conduct such transactions, to entrust, etc. a person with conducting such transactions, or to become entrusted, etc. with conducting such transactions, for the purpose of pegging, fixing, or stabilizing market prices of listed Financial Instruments, etc. on a Financial Instruments Exchange Market or the market prices of Over-the-Counter Traded Securities on an Over-the-Counter Securities Market, in a way that constitutes a violation of the provisions of Cabinet Order.

(Compensatory Liability for Market Manipulation)

Article 160 (1) A person that violates the provisions of the preceding Article is liable to compensate for damages from purchase and sales of Securities on a Financial Instruments Exchange Market, Market Transactions of Derivatives, purchase and sales of Securities on an Over-the-Counter Securities Market, and purchase and sales of Tradable Securities (hereinafter referred to "Purchase and Sales of Securities, etc. on a Financial Instruments Exchange Market, etc." in this paragraph) in connection with a Financial Instrument, Financial Indicator, or Option whose price, Agreed Figure, or amount receivable the person formed through that violation, which damages are incurred by any person that conducts, or entrusts another person with conducting, such a Purchase and Sale of Securities, etc. on a Financial

Instruments Exchange Market, etc. at the so-formed price, Agreed Figure, or amount of compensation.

- (2) A claim for compensation under the preceding paragraph extinguishes by prescription if it is not exercised within one year from when the claimant learns that an act that is in violation of the provisions of the preceding Article has taken place or within three years from when the act takes place.

(Restriction on Transactions by a Financial Services Provider on Its Own Account)

Article 161 (1) The Prime Minister may specify, in Cabinet Office Ordinance, matters that the Prime Minister finds to be necessary and appropriate for ensuring the public interest or the protection of investors, in order to restrict the purchase and sale of the Securities that a Financial Services Provider, etc. or Authorized Operator for On-Exchange Transactions conducts on its own account, or restrict a Financial Services Provider, etc. or Authorized Operator for On-Exchange Transactions from conducting excessive volumes of purchase and sales which are found to be detrimental to the order of the Financial Instruments Exchange Market or the Over-the-Counter Securities Market.

- (2) The provision of the preceding paragraph shall apply mutatis mutandis to Market Transactions of Derivatives and Over-the-Counter Derivatives Transactions.

(Depositing Money for Margin Transactions)

Article 161-2 (1) In a margin transaction or other transaction specified by Cabinet Office Ordinance, a Financial Services Provider, pursuant to the provisions of Cabinet Office Ordinance, must receive money that a customer deposits with it in an amount not less than that arrived at by multiplying the market value of the Securities for which the transaction is to be effected by the rate decided by the Prime Minister with a view to ensuring fairness in purchase and sales and other transactions of Securities.

- (2) Securities may serve as the money referred to in the preceding paragraph, pursuant to the provisions of Cabinet Office Ordinance.

(Prohibition of Short Selling and Stop Orders)

Article 162 (1) It is prohibited for any person to engage the following acts in a way that constitutes a violation of Cabinet Order:

- (i) selling Securities without having them or by borrowing them (including cases specified by Cabinet Order as being equivalent thereto), entrusting, etc. a person with such a sale, or becoming entrusted, etc. with such a sale; or
- (ii) entrusting, etc. a person with making an immediate purchase of Securities if the market price rises above the market price at the time of entrustment to

at least the level that the entrusting person indicates, or with making an immediate sale of Securities if the market price falls below the market price at the time of entrustment to at least the level that the entrusting person indicates.

- (2) The provisions of item (ii) of the preceding paragraph apply mutatis mutandis to transactions specified in Article 2, paragraph (21), items (ii) and (iii). In this case, with regard to a transaction set forth in Article 2, paragraph (21), item (ii), in item (ii) of the preceding paragraph, the term "Securities" is deemed to be replaced with "the Agreed Figure," the term "rises" is deemed to be replaced with "goes up to", the phrase "purchase of" is deemed to be replaced with "transaction, so that the entrusting person will receive money in the event that the Actual Figure rises above", the term "falls" is deemed to be replaced with "goes down to", and the phrase "sale of" is deemed to be replaced with "transaction, so that the entrusting person will receive money in the event that the Actual Figure falls below"; and with regard to a transaction set forth in Article 2, paragraph (21), item (iii), in item (ii) of the preceding paragraph, the term "Securities" is deemed to be replaced with "Options," the phrase "purchase of" is deemed to be replaced with "transaction wherein the entrusting party will acquire", and the phrase "sale of" is deemed to be replaced with "transaction wherein the entrusting party will grant".

(Regulation of the Purchase and Sale of Listed or Over-the-Counter Traded Share Certificates by the Company Issuing These Shares)

Article 162-2 The Prime Minister, through Cabinet Office Ordinance, may stipulate the particulars that the Prime Minister finds to be necessary and appropriate for preventing manipulation of the market price of share certificates listed on a Financial Instruments Exchange or share certificates falling under the category of Over-the-Counter Traded Securities (hereinafter such share certificates are collectively referred to as "Listed or Over-the-Counter Traded Share Certificates" in this Article) or for ensuring fairness in transactions of Listed or Over-the-Counter Traded Share Certificates, with regard to a company that issues Listed or Over-the-Counter Traded Share Certificates effecting a purchase and sale of Listed or Over-the-Counter Traded Share Certificates under Article 156, paragraph (1) of the Companies Act (including as it applies through the replacement of certain terms pursuant to the provisions of Article 163 or Article 165, paragraph (3) of that Act), Article 199, paragraph (1) of that Act (but only if the company seeks to solicit persons to subscribe for treasury shares it disposes of), or a foreign law or regulation that is equivalent to these provisions (but only if the company is a foreign company), or entrusting, etc. a person with such a purchase and sale; with regard to a Trust Company, etc., based on a trust contract, becoming entrusted,

etc. with effecting such transactions on the account of a company that issues Listed or Over-the-Counter Traded Share Certificates; with regard to a Financial Services Provider or an Authorized Operator for On-Exchange Transactions becoming entrusted, etc. with effecting such transactions; and with regard to anything else that is specified by Cabinet Office Ordinance.

(Submission of Reports on Purchase and Sales of Specified Securities, etc. by the Officer of a Listed Company, etc.)

Article 163 (1) If an officer or a major shareholder (meaning a shareholder that holds voting rights (excluding the voting rights that are specified by Cabinet Office Ordinance in consideration of the manner in which they are acquired or held and other circumstances) constituting 10 percent or more of all shareholders', etc. voting rights, in that person's own name or in the name of another person (or under a fictitious name); hereinafter the same applies in this Article to Article 166 inclusive) of the Issuer of Securities set forth in Article 2, paragraph (1), item (v), (vii), or (ix) which are listed on a Financial Instruments Exchange or which fall under the category of Over-the-Counter Traded Securities or Tradable Securities (except those specified by Cabinet Order) or of Securities designated by Cabinet Order (hereinafter such an Issuer is referred to as a "Listed Company, etc." in this Article to Article 166 inclusive) makes a purchase, etc. of Securities issued by the Listed Company, etc. which fall under any of the categories of Securities set forth in Article 2, paragraph (1), item (v), (vii), or (ix) (excluding those specified by Cabinet Order) or other Securities specified by Cabinet Order (hereinafter such Securities are referred to as "Specified Securities" in this Article to Article 166 inclusive) or Securities set forth in Article 2, paragraph (1), item (ix) which indicate Options on Specified Securities of the Listed Company, etc. or other Securities specified by Cabinet Order (hereinafter such Securities are referred to as "Related Securities" in this paragraph) (a purchase, etc. means a purchase of Specified Securities or Related Securities (hereinafter these Securities are collectively referred to as "Specified Securities, etc." in this Article to Article 166 inclusive) or any other transaction specified by Cabinet Order; hereinafter the same applies in this Article, the following Article and Article 165-2) or effects the sale, etc. thereof (meaning a sale of Specified Securities, etc. or any other transaction specified by Cabinet Order; hereinafter the same applies in this Article to Article 165-2 inclusive), on its own account (including if the trustee of a trust for which the officer or major shareholder is the settlor or beneficiary makes a purchase, etc. or sale, etc. of the Specified Securities, etc. of the Listed Company, etc. as specified by Cabinet Office Ordinance; hereinafter the same applies in this and the following Articles), the officer or major shareholder, pursuant to the provisions of Cabinet Office

Ordinance, must submit a report on the purchase and sale or other transaction (hereinafter referred to as a "Purchase and Sale, etc." in this paragraph, the following Article and Article 165-2) to the Prime Minister by the 15th day of the month following the month that includes the day of the Purchase and Sale, etc.; provided, however, that this does not apply to the cases specified by Cabinet Office Ordinance in consideration of the features of the purchase, etc. or sale, etc. and other circumstances.

- (2) If the officer or major shareholder prescribed in the preceding paragraph effects a purchase, etc. or sale, etc. of the Specified Securities, etc. of the Listed Company, etc. by entrusting, etc. a Financial Services Provider, etc. or Authorized Operator for On-Exchange Transactions with doing so, the report prescribed in the preceding paragraph is to be submitted via the Financial Services Provider, etc. or Authorized Operator for On-Exchange Transactions. The same applies if the other party to the purchase, etc. or sale, etc. is a Financial Services Provider, etc. or Authorized Operator for On-Exchange Transactions.

(Restitution by the Officer of a Listed Company, etc. of Profits Arising from Short-Term Purchase and Sales)

Article 164 (1) In order to prevent wrongful use by the officer or major shareholder of a Listed Company, etc. of any secret information acquired in the course of duty or by virtue of position, a Listed Company, etc. may request an officer or major shareholder that effects a sale, etc. of Specified Securities, etc. of the Listed Company, etc. within six months after having effected a purchase, etc. of them on the officer's or major shareholder's own account, or an officer or major shareholder that effects a purchase, etc. of Specified Securities, etc. of the Listed Company, etc. within six months after having effected the sale, etc. of them on the officer's or major shareholder's own account, to provide the Listed Company, etc. with any profit earned therefrom.

- (2) If a Listed Company, etc. fails to make a request under the preceding paragraph within 60 days from the day on which a shareholder (including a member that is an insurance policy holder, or an equity investor; hereinafter the same applies in this paragraph) of the Listed Company, etc. demands that the Listed Company, etc. make the request under the preceding paragraph, the shareholder may make the request in subrogation of the Listed Company, etc.
- (3) The right to make a request of the officer or major shareholder of a Listed Company, etc. pursuant to the preceding two paragraphs extinguishes by prescription if that right is not exercised within two years from the time the profit is made.
- (4) If the Prime Minister finds, based on the report referred to in the preceding Article that the officer or major shareholder of a Listed Company, etc. has

made the profit referred to in paragraph (1), the Prime Minister is to send a copy of the portion of the report pertaining to the profit (hereinafter referred to as a "Document Related to Profit" in this Article) to the officer or major shareholder, and if there is no filing as referred to in the following paragraph from the officer or major shareholder within the period specified therein with regard to the Document Related to Profit, the Prime Minister is to send a copy of the Document Related to Profit to the Listed Company, etc.; provided, however, that this does not apply if the Prime Minister learns that the profit referred to in paragraph (1) has already been provided to the Listed Company, etc. before the Prime Minister sends the copy of the Document Related to Profit to the officer or major shareholder or to the Listed Company, etc.

- (5) If a copy of a Document Related to Profit is sent to the officer or major shareholder of a Listed Company, etc. pursuant to the main clause of the preceding paragraph, and the officer or major shareholder finds that the officer or major shareholder has not made a Purchase and Sale, etc. as stated in the copy of the Document Related to Profit, the officer or major shareholder may submit a filing indicating this to the Prime Minister within a period not exceeding 20 days from the day on which the officer or major shareholder receives the copy of the Document Related to Profit.
- (6) If a filing indicating that the officer or major shareholder has not made a Purchase and Sale, etc. as stated in the copy of a Document Related to Profit is submitted by the officer or major shareholder pursuant to the preceding paragraph, for the purpose of the application of the main clause of paragraph (4), the portion to which the filing pertains is deemed not to have been included in the report to the Prime Minister under paragraph (1) of the preceding Article.
- (7) If the Prime Minister sends a copy of a Document Related to Profit to a Listed Company, etc. based on the provisions of paragraph (4), the Prime Minister is to make the copy of the Document Related to Profit available for public inspection during the period starting from the day on which 30 days have elapsed since the day the copy is sent and ending on the day that the right to a request which is provided for in paragraph (3) extinguishes (or the day that the Prime Minister learns that the profit referred to in paragraph (1) has been provided to the Listed Company, etc., if the Prime Minister learns of this before the right to a request extinguishes); provided, however, that this does not apply if the Prime Minister learns that the profit referred to in paragraph (1) has already been provided to the Listed Company, etc. before the Prime Minister makes the copy of the Document Related to Profit available for public inspection.
- (8) The provisions of the preceding paragraphs do not apply if the major shareholder is not a major shareholder either at the time of effecting the

purchase, etc. or at the time of effecting the sale, etc., nor do they apply in cases that are specified by Cabinet Office Ordinance in consideration of the features the purchase, etc. or sale, etc. that an officer or major shareholder effects and other circumstances.

- (9) The method of calculating profit if, as in paragraph (4), the Prime Minister finds the officer or major shareholder of a Listed Company, etc. to have made the profit referred to in paragraph (1), is specified by Cabinet Office Ordinance.

(Acts Prohibited for the Officer of a Listed Company, etc.)

Article 165 It is prohibited for the officer or major shareholder of a Listed Company, etc. to engage in the following acts:

- (i) selling Specified Securities, etc. of the Listed Company, etc. or effecting other transactions specified by Cabinet Order (hereinafter referred to as "Specified Transactions" in this Article and paragraph (15) of the following Article), in which the amount of Specified Securities subject to the Specified Transactions (meaning the amount of Specified Securities sold in the case of a sale of Specified Securities, or the amount specified by Cabinet Office Ordinance in the case of any other transaction) exceeds the amount specified by Cabinet Office Ordinance as the amount for Specified Securities that are of the same class as the Specified Securities of the Listed Company, etc. that the officer or major shareholder holds; or
- (ii) effecting a sale, etc. of Specified Securities, etc. of the Listed Company, etc. (other than a Specified Transaction), in which the volume of the Specified Securities, etc. specified by Cabinet Office Ordinance as the basis to be used for calculating the amount paid or received in the sale, etc. exceeds the volume specified by Cabinet Office Ordinance as the volume for Specified Securities that are of the same class as the Specified Securities of the Listed Company, etc. that the officer or major shareholder holds.

(Specified Securities etc. Among the Assets of Specified Partnerships, etc.)

Article 165-2 (1) In a partnership, etc. (meaning a partnership established based on a partnership contract provided for in Article 667, paragraph (1) of the Civil Code, an Investment Limited Partnership provided for in Article 2, paragraph (2) of the Limited Partnership Act for Investment (hereinafter referred to as an "Investment LPS" in this Article), or a Limited Liability Partnership provided for in Article 2 of the Limited Liability Partnership Act (hereinafter referred to as a "Limited Liability Partnership" in this Article), or any similar organization specified by Cabinet Order; hereinafter the same applies in this Article) whose assets include voting rights in respect of shares in a Listed Company, etc. which constitute 10 percent or more of all shareholders', etc. voting rights (hereinafter referred to as a "Specified Partnership, etc." in this

Article), if one of the partners in the Specified Partnership, etc. (including a partner specified by Cabinet Office Ordinance as being similar to such a person; hereinafter the same applies in this Article) effects a purchase, etc. or sale, etc. of the Specified Securities, etc. of a Listed Company, etc. which is connected with the assets of the Specified Partnership, etc. (including if the trustee of a trust in which all of the partners in the Specified Partnership, etc. are the settlor or beneficiary effects a purchase, etc. or sale, etc. of the Specified Securities, etc. of a Listed Company, etc. as specified by Cabinet Office Ordinance; hereinafter the same applies in this Article), the partner that effects the purchase, etc. or sale, etc. (including a partner specified by Cabinet Office Ordinance as equivalent to such a person; hereinafter the same applies in this Article) must submit a report on the Purchase and Sale, etc. to the Prime Minister, pursuant to the provisions of Cabinet Office Ordinance, by the 15th day of the month following the month that includes the day of the Purchase and Sale, etc.; provided, however, that this does not apply in the cases that are specified by Cabinet Office Ordinance in consideration of the features the purchase, etc. or sale, etc. and other circumstances.

- (2) If a partner in a Specified Partnership, etc. prescribed in the preceding paragraph effects a purchase, etc. or sale, etc. of the Specified Securities, etc. of a Listed Company, etc. which is connected with the assets of that Specified Partnership, etc. by entrusting, etc. a Financial Services Provider, etc. or Authorized Operator for On-Exchange Transactions with doing so, the report prescribed in the preceding paragraph is to be submitted via the Financial Services Provider, etc. or Authorized Operator for On-Exchange Transactions. The same applies if the other party to the purchase, etc. or sale, etc. is a Financial Services Provider, etc. or Authorized Operator for On-Exchange Transactions.
- (3) In order to prevent wrongful use by a partner in a Specified Partnership, etc. of any secret information acquired by virtue of position, a Listed Company, etc. may request a partner in a Specified Partnership, etc. that, in connection with the assets of the Specified Partnership, etc., effects a sale, etc. of the Specified Securities, etc. of the Listed Company, etc. within six months after having effected a purchase, etc. of them, or effects a purchase, etc. of the Specified Securities, etc. of the Listed Company, etc. within six months after having effected a sale, etc. of them, to use the assets of the Specified Partnership, etc. to provide the Listed Company, etc. with any profit earned from the sale, etc. or purchase, etc.
- (4) If a Listed Company, etc. makes a request pursuant to the preceding paragraph but the obligation linked to that request and other obligations of the Specified Partnership, etc. cannot be repaid in full using the assets of the Specified Partnership, etc., the Listed Company, etc. may request each person

that was a partner in the Specified Partnership, etc., at the time that the profit referred to in that paragraph accrued (excluding limited partners in an Investment LPS and partners in a Limited Liability Partnership and any person specified by Cabinet Office Ordinance as similar to such persons) to provide the Listed Company, etc. with the profit (to the extent of the amount that remains after deducting the amount of the profit already provided to the Listed Company, etc. pursuant to that paragraph) in proportion to the liability of each partner for the obligation of the Specified Partnership, etc.

- (5) In a case prescribed in the preceding paragraph, the provisions of the preceding paragraph also apply if a compulsory execution against the assets of the Specified Partnerships, etc. does not prove effective.
- (6) The preceding paragraph does not apply if a person that was a partner in the Specified Partnership, etc. at the time that the profit referred to in paragraph (3) accrued proves that the Specified Partnership, etc. has sufficient assets against which a compulsory execution may be easily effected.
- (7) If a Listed Company, etc. fails to make a request under paragraphs (3) to (5) within 60 days from the day on which a shareholder (including a member that is an insurance policy holder, or an equity investor; hereinafter the same applies in this paragraph) of the Listed Company, etc. has demanded that the Listed Company, etc. make a request under one of these paragraphs, the shareholder may make the request in subrogation of the Listed Company, etc.
- (8) The right to request the restitution of profit pursuant to paragraphs (3) to (5) inclusive or the preceding paragraph extinguishes by prescription if that right is not exercised within two years from the time that a profit accrues to the assets of the Specified Partnership, etc.
- (9) If the Prime Minister finds, based on the report referred to in paragraph (1), that the profit referred to in paragraph (3) has accrued to the assets of the Specified Partnership, etc., the Prime Minister is to send a copy of the portion of the report pertaining to the profit (hereinafter referred to as a "Document Related to Partnership Profit" in this Article) to the reporting partner (meaning the partner that has submitted the report (limited to a report of the most recent purchase, etc. or sale, etc.) pursuant to paragraph (1)), and if there is no filing as referred to in the following paragraph from the reporting partner within the period specified therein with regard to the Document Related to Partnership Profit, the Prime Minister is to send a copy of the Document Related to Partnership Profit to the Listed Company, etc.; provided, however, that this does not apply if the Prime Minister learns that the profit referred to in paragraph (3) has already been provided to the Listed Company, etc. before the Prime Minister sends the copy of the Document Related to Partnership Profit to the reporting partner or the Listed Company, etc.
- (10) If a copy of a Document Related to Partnership Profit is sent to a reporting

partner pursuant to the main clause of the preceding paragraph, and the reporting partner finds that that the reporting partner has not made a Purchase and Sale, etc. as stated in the copy of the Document Related to Partnership Profit, the reporting partner may submit a filing indicating this to the Prime Minister within a period not exceeding 20 days from the day on which the reporting partner receives the copy of the Document Related to Partnership Profit.

- (11) If a filing indicating that the reporting partner has not made a Purchase and Sale, etc. as stated in the copy of a Document Related to Partnership Profit is submitted by the reporting partner pursuant to the preceding paragraph, for the purpose of the application of the main clause of paragraph (9), the portion to which the filing pertains is deemed not to be included in the report to the Prime Minister under paragraph (1).
- (12) If the Prime Minister sends a copy of a Document Related to Partnership Profit to a Listed Company, etc. based on the provisions of paragraph (9), the Prime Minister is to make the copy of the Document Related to Partnership Profit available for public inspection during the period starting from the day on which 30 days have elapsed since the day the copy is sent and ending on the day that the right to a request which is provided for in paragraph (8) extinguishes (or the day that the Prime Minister learns that the profit referred to in paragraph (3) has been provided to the Listed Company, etc., if the Prime Minister learns of this before the right to a request extinguishes); provided, however, that this does not apply if the Prime Minister learns that the profit referred to in paragraph (3) has been provided to the Listed Company, etc. before the Prime Minister makes a copy of the Document Related to Partnership Profit available for public inspection.
- (13) The provisions of paragraph (3) to the preceding paragraph inclusive do not apply if a Specified Partnership, etc. was not a Specified Partnership, etc. either at the time at which the purchase, etc. was made in connection with the assets of the Specified Partnership, etc. or at the time the sale, etc. was made in connection with the assets of the Specified Partnership, etc., nor to the cases that are specified by Cabinet Office Ordinance in consideration of the features of the purchase, etc. or sale, etc. that is conducted in connection with the assets of the Specified Partnership, etc. or other circumstances.
- (14) The method of calculating profit if, as in paragraph (9), the Prime Minister finds the profit referred to in paragraph (3) to have accrued to the assets of a Specified Partnership, etc. as provided in paragraph (3), is specified by Cabinet Office Ordinance.
- (15) A partner in a Specified Partnership, etc. must not engage in the following acts with the assets of the Specified Partnership, etc.:
  - (i) conducting a Specified Transaction, in which the amount of Specified

- Securities traded in the Specified Transaction (meaning the amount of Specified Securities sold in the case of a sale of Specified Securities, or the amount specified by Cabinet Office Ordinance in the case of any other transaction) exceeds the amount specified by Cabinet Office Ordinance as the amount for Specified Securities that are of the same class as the Specified Securities of the Listed Company, etc. that the partner holds; or
- (ii) effecting a sale, etc. of Specified Securities, etc. of the Listed Company, etc. (other than a Specified Transaction), in which the volume of the Specified Securities, etc. specified by Cabinet Office Ordinance as the basis to be used for calculating the amount paid or received in the sale, etc. exceeds the volume specified by Cabinet Office Ordinance as the volume for Specified Securities that are of the same class as the Specified Securities of the Listed Company, etc. that the partner holds.
- (16) The preceding three Articles do not apply to a major shareholder that comes to fall under the category of a major shareholder of a Listed Company, etc. as a result of obtaining shares in the Listed Company, etc. as a part of the assets of a partnership, etc.

(Acts Prohibited for a Company Insider)

- Article 166 (1) A person set forth in one of the following items (hereinafter referred to as a "Company Insider" in this Article) that comes to know a material fact about the business of a Listed Company, etc. (in the case of the Company Insider of a Subsidiary Company of the Listed Company, etc. (other than one that falls under the category of a Company Insider of the Listed Company, etc.)), this is limited to a material fact about the business of the Subsidiary Company which is set forth in one of items (v) to (viii) inclusive of the following paragraph; the same applies hereinafter) in the manner prescribed in the relevant item must not effect a purchase and sale, or any other transfer or acquisition for value, of Specified Securities, etc. of the Listed Company, etc., nor effect a Derivatives Transaction connected with the same (hereinafter referred to as a "Purchase and Sale, etc." in this Article) before the disclosure of the material fact about its business. The same applies for one year to a Company Insider that comes to know a material fact about the business of a Listed Company, etc. in a manner prescribed in one of the following items even after the person ceases to be the Company Insider as set forth in the relevant item:
- (i) the officer (if the accounting advisor is a corporation, its staff member), agent, employee, or other worker (hereinafter referred to as an "Officer, etc." in this Article and the following Article) of the Listed Company, etc. (including its Parent Company and Subsidiary Companies; hereinafter the same applies in this paragraph): coming to know the material fact in the

- course of duty;
- (ii) a shareholder of the Listed Company, etc. that has the right prescribed in Article 433, paragraph (1) of the Companies Act, an ordinary equity investor in the Listed Company, etc. as prescribed in the Act on Preferred Equity Investment that is specified by Cabinet Office Ordinance as being deemed to have a right similar to such a right, or a member of the Listed Company, etc. that has the right prescribed in Article 433, paragraph (3) of that Act (this includes the Officer, etc. of such a shareholder, ordinary equity investor, or member, if such a shareholder, ordinary equity investor, or member is a corporation (including an organization without legal personality for which a representative or administrator has been designated; hereinafter the same applies in this and the following Articles), and includes the agent or employee of such a shareholder, ordinary equity investor, or member, if such a shareholder, ordinary equity investor, or member is a person other than a corporation): coming to know the material fact in the course of exercising that right;
  - (iii) a person that has statutory authority over the Listed Company, etc.: coming to know the material fact in the course of exercising that authority;
  - (iv) a person other than an Officer, etc. of the Listed Company, etc., that has concluded, or is in negotiations to conclude, a contract with the Listed Company, etc. (including an Officer, etc. of such a person, if such a person is a corporation, and an agent or employee of such a person, if such a person is a person other than a corporation): coming to know the material fact in the course of concluding, negotiating, or performing the contract; and
  - (v) the Officer, etc. of a person set forth in item (ii) or the preceding item that is a corporation (but only the Officer, etc. of a corporation at which another Officer, etc. comes to know a material fact about the business of the Listed Company, etc. pursuant to item (ii) or the preceding item): coming to know the material fact in the course of duty.
- (2) The material fact about business that is provided for in the preceding paragraph means one of the following facts (for item (i), (ii), (v), or (vi), this excludes a fact that falls under the criteria specified by Cabinet Office Ordinance as having only a minor influence on investors' investment decisions):
- (i) the organ that is responsible for making decisions about the execution of operations at the Listed Company, etc. has decided that the Listed Company, etc. will effect one of the following things, or has decided that the Listed Company, etc. will not effect a thing that was subject to such a decision (limited to a decision that has already been disclosed):
    - (a) the solicitation, as prescribed in Article 199, paragraph (1) of the Companies Act, of persons to subscribe for the shares that a stock company

- issues or the treasury shares it disposes of (including solicitation of persons to subscribe for preferred equity investments that a Cooperative Financial Institution issues) (in the case of solicitation for persons to subscribe for treasury shares, this includes solicitation under a foreign law or regulation that is equivalent to this provision of the Companies Act (but only if the Listed Company, etc. is a foreign company; hereinafter the same applies in this Article)), or solicitation, as prescribed in Article 238, paragraph (1) of that Act, of persons to subscribe for share options;
- (b) a reduction of the stated capital;
  - (c) a reduction of the capital reserves or retained earnings reserves;
  - (d) the acquisition of its own shares as prescribed in Article 156, paragraph (1) of the Companies Act (including as it applies through the replacement of certain terms pursuant to the provisions of Articles 163 and Article 165, paragraph (3) of that Act) or under a foreign law or regulation that is equivalent to these provisions of that Act (but only if the Listed Company, etc. is a foreign company; hereinafter the same applies in this Article);
  - (e) the allotment of shares without a contribution;
  - (f) a share split (including a split of preferred equity investment as prescribed in the Act on Preferred Equity Investment);
  - (g) a distribution of surplus;
  - (h) a share exchange;
  - (i) a share transfer;
  - (j) a merger;
  - (k) a company split;
  - (l) the transfer or acquisition of all or a part of business;
  - (m) dissolution (other than dissolution as a result of a merger);
  - (n) the commercialization of a new product or new technology; or
  - (o) a business alliance or anything else that is specified by Cabinet Order as being equivalent to the things set forth in sub-items (a) to (n) inclusive.
- (ii) one of the following facts has arisen at the Listed Company, etc.:
    - (a) damage arising from a disaster or in the performance of its operations;
    - (b) any change in its major shareholders;
    - (c) a fact that may be grounds for the delisting of Specified Securities or Options on Specified Securities, or for the recession of their registration; or
    - (d) any fact specified by Cabinet Order as being equivalent to the facts set forth in sub-items (a) to (c) inclusive.
  - (iii) the appearance of a variance in the forecasts that the Listed Company, etc. has newly prepared or in the results in the settlement of accounts for the business year, when compared against the last disclosed forecasts (or disclosed actual figures for the preceding business year, if there are no such forecasts) of net sales, current profits, or net income of the Listed Company,

- etc. (hereinafter referred to as "Net Sales, etc." in this Article), of the dividends prescribed in item (i), sub-item (g) from the Listed Company, etc., or of the Net Sales, etc. of the corporate group of which the Listed Company, etc. is a part (limited to a variance that falls under the criteria specified by Cabinet Office Ordinance as having a material influence on investors' investment decisions);
- (iv) a material fact other than one of the facts specified in the preceding three items, which concerns the operations, business, or assets of the Listed Company, etc. and has a significant influence on investors' investment decisions;
- (v) the organ that is responsible for making decisions about the execution of operations at the Subsidiary Company of the Listed Company, etc. has decided that the Subsidiary Company will effect one of the following things, or has decided that the Subsidiary Company will not effect a thing that was subject to such a decision (limited to a decision that has already been disclosed):
- (a) a share exchange;
  - (b) a share transfer;
  - (c) a merger;
  - (d) a company split;
  - (e) a transfer or acquisition of all or part of business;
  - (f) dissolution (other than dissolution as a result of a merger);
  - (g) the commercialization of a new product or new technology; or
  - (h) a business alliance or any other thing specified by Cabinet Order as being equivalent to one of the things set forth in sub-items (a) to (g) inclusive.
- (vi) one of the following facts has arisen at a Subsidiary Company of the Listed Company, etc.:
- (a) damage arising from a disaster or in the performance of its operations; or
  - (b) any fact specified by Cabinet Order as being equivalent to the fact specified in sub-item (a).
- (vii) the appearance of a variance in the forecasts that a Subsidiary Company (limited to a Subsidiary Company that is the Issuer of Securities specified in Article 2, paragraph (1), item (v), (vii), or (ix) that are listed on a Financial Instruments Exchange, or any other Subsidiary Company specified by Cabinet Office Ordinance) of the Listed Company, etc. has newly prepared or in the results in the settlement of accounts for the business year, when compared against the last disclosed forecasts (or disclosed actual figures for the preceding business year, if there are no such forecasts) of Net Sales, etc. of the Subsidiary Company (limited to a variance that falls under the criteria specified by Cabinet Office Ordinance as having a material influence on investors' investment decisions); or

- (viii) a material fact, other than one of the facts specified in the preceding three items, which concerns the operations, business, or assets of a Subsidiary Company of the Listed Company, etc. and has a significant influence on investors' investment decisions.
- (3) It is prohibited for a person that receives information from a Company Insider (including a Company Insider as prescribed in the second sentence of paragraph (1); hereinafter the same applies in this paragraph) regarding a material fact about business provided for in paragraph (1) that the Company Insider comes to know in a manner prescribed in one of the items of that paragraph (other than a person that is set forth in one of the items of that paragraph and that comes to know the material fact about business in the manner prescribed in the relevant item), or for another Officer, etc., at corporation to which the person that receives this information in the course of duty is affiliated, that comes to know the material fact about business in connection with that person's duties, to effect the Purchase and Sale, etc. of Specified Securities, etc. of the Listed Company, etc. before the material fact about business is disclosed.
- (4) The disclosure referred to in paragraph (1), paragraph (2), items (i), (iii), (v), and (vii), and the preceding paragraph has been made once measures specified by Cabinet Order as measures for putting information into a format that makes it available to a large number of persons are taken by a Listed Company, etc. or the Subsidiary Company of a Listed Company, etc. in connection with a material fact about the business of the Listed Company that is provided for in paragraph (1), etc.; a decision by the organ that is responsible for making decisions about the execution of operations at the Listed Company, etc.; the Net Sales, etc. of the Listed Company, etc. or dividends from the Listed Company, etc. as prescribed in paragraph (2), item (i), sub-item (g); the Net Sales, etc. of the corporate group of which the Listed Company, etc. is a part; a decision by the organ that is responsible for making decisions about the execution of operations at the Subsidiary Company of the Listed Company, etc.; or the Net Sales, etc. of the Subsidiary Company of the Listed Company, etc. (for a Subsidiary Company, this is limited to a material fact about the business of the Subsidiary Company which is provided for in paragraph (1); a decision by the organ that is responsible for making decisions about the execution of operations at the Subsidiary Company; or the Net Sales, etc. of the Subsidiary Company; hereinafter the same applies in this paragraph); or if these matters are stated in documents specified in Article 25, paragraph (1) (excluding documents specified in Article 25, paragraph (1), item (xi)) that the Listed Company, etc. or the Subsidiary Company of the Listed Company, etc. has submitted, such a disclosure has been made once these documents are made available for public inspection pursuant to Article 25, paragraph (1).

- (5) The term "Parent Company" as used in paragraph (1) and the following Article means a company specified by Cabinet Order as one that controls another company (including a Cooperative Financial Institution; hereinafter the same applies in this paragraph), and the term "Subsidiary Company" as used in this Article means a company stated or recorded as belonging to the corporate group that belongs to another company, in the most recent of the statements under Article 5, paragraph (1), Annual Reports under Article 24, paragraph (1), Quarterly Reports under Article 24-4-7, paragraph (1) or (2), or Semiannual Reports under Article 24-5, paragraph (1), which that other company has submitted, and which has been made available for public inspection pursuant to Article 25, paragraph (1); in the latest Specified Information on Securities disclosed pursuant to Article 27-31, paragraph (2); or in the latest Information on the Issuer disclosed pursuant to Article 27-32, paragraph (1) or (2).
- (6) The provisions of paragraphs (1) and (3) do not apply in the following cases:
- (i) a person with the right prescribed in Article 202, paragraph (1), item (i) of the Companies Act (including the right to be allotted a preferred equity investment prescribed in the Act on Preferred Equity Investment) acquires share certificates (including preferred equity investment certificates as prescribed in the Act on Preferred Equity Investment) by exercising that right;
  - (ii) a person with a share option acquires share certificates by exercising the share option;
  - (ii)-2 a person that has acquired an Option on Specified Securities, etc. effects a Sale and Purchase, etc. of Specified Securities, etc. by exercising the Option;
  - (iii) a purchase of shares is demanded pursuant to the provisions of Article 116, paragraph (1); Article 469, paragraph (1); Article 785, paragraph (1); Article 797, paragraph (1); or Article 806, paragraph (1) of the Companies Act; or a Purchase and Sale, etc. is made based on a statutory obligation
  - (iv) a purchase (or acquisition, in the case of an Option; the same applies in the following item) or other acquisition for value of Specified Securities, etc. of a Listed Company, etc. or of an Option for the purchase and sale thereof (limited to an Option that causes the person that exercises it to acquire the position of the buyer in a purchase and sale of the Specified Securities, etc. subject to that Option) is effected as per the request that the board of directors of the Listed Company, etc. have decided to make (including a request that the executive officer has decided to make, if it is a company with committees) in order to cope with a Tender Offer under Article 27-2, paragraph (1) (but only if the main clause of Article 27-2, paragraph (1) applies) or any other act specified by Cabinet Order as being equivalent to

such a Tender Offer, for the Share Certificates, etc. (meaning Share Certificates, etc. as defined in Article 27-2, paragraph (1)) of the Listed Company, etc.;

- (iv)-2 a purchase of share certificates for the company's own shares, a purchase of Securities specified in Article 2, paragraph (1), item (xx) or other Securities specified by Cabinet Order which indicate rights to such share certificates (hereinafter referred to as "Share Certificates, etc." in this item), or a purchase of an Option for the purchase and sale of such Share Certificates, etc. (limited to an Option that causes the person that exercises it to acquire the position of the buyer in a purchase and sale of the Share Certificates, etc. subject to that Option; hereinafter the same applies in this item), is effected based on a resolution under Article 156, paragraph (1) of the Companies Act (including as it applies through the replacement of certain terms pursuant to the provisions of Articles 163 and Article 165, paragraph (3) of that Act; hereinafter the same applies in this item) by the shareholders or the board of directors of a Listed Company, etc. (including the decision of an executive officer, if it is a company with committees) regarding the company's acquisition of its own shares under Article 156, paragraph (1) of that Act or under the equivalent provisions of a foreign law or regulation (limited to a resolution on a matter set forth in one of the items of Article 156, paragraph (1) of the Companies Act), or is effected based on a resolution or other similar decision equivalent to such a shareholders resolution or board of directors resolution, which is reached based on a foreign law or regulation (such a resolution or decision is hereinafter referred to as a "Shareholder Resolution, etc." in this item), and it is effected following the disclosure provided for in paragraph (1) of such a Shareholder Resolution, etc. (this includes disclosure of a decision by the organ that is responsible for making decisions about the execution of operations at the Listed Company, etc., if the content of the Shareholder Resolution, etc. is the same as the content of that decision, and if that decision is disclosed as prescribed in paragraph (1) before the Shareholder Resolution, etc.) (but not if the disclosure provided for in paragraph (1) has not been made with regard to a material fact other than the decision regarding the company's acquisition of its own shares by the organ that is responsible for making decisions about the execution of operations at the Listed Company, etc., in connection with the operations, etc. provided for in that paragraph (unless it is a purchase, based on the provisions of this item, of Share Certificates, etc., or of an Option for the purchase and share of Share Certificates, etc., which constitute the company's own share certificates, in a company's acquisition of its own shares under Article 156, paragraph (1) of that Act or under the equivalent provisions of a foreign law or regulation, which is other than the

- relevant acquisition of its own shares));
- (v) a Purchase and Sale, etc. is effected pursuant to the provisions of Cabinet Order which are referred to in Article 159, paragraph (3);
  - (vi) a Purchase and Sale, etc. of corporate bond certificates (excluding corporate bond certificates with share options) or other Securities specified by Cabinet Order is effected (except in a case specified by Cabinet Office Ordinance);
  - (vii) a Purchase and Sale, etc. is effected between persons falling under the provisions of paragraph (1) or (3), through neither a Financial Instruments Exchange Market nor an Over-the-Counter Securities Market (unless both parties effecting the Purchase and Sale, etc. know that a further Purchase and Sale, etc. of the Specified Securities, etc. linked to that Purchase and Sale, etc. will be effected that is in violation of the provisions of paragraph (1) or (3)); or
  - (viii) a Purchase and Sale, etc. is effected in performance of a contract for the Purchase and Sale, etc. of Specified Securities, etc. of the Listed Company, etc. that is concluded before the relevant person comes to know the material fact about the business of the Listed Company, etc. which is provided for in paragraph (1), or is effected in the implementation of a plan for the Purchase and Sale, etc. of Specified Securities, etc. of the Listed Company, etc. that is decided before the relevant person comes to know the material fact about the business of the Listed Company, etc., or a Purchase and Sale, etc. is effected that is obviously based on other special circumstances equivalent to such a case (limited to a case specified by Cabinet Office Ordinance).

(Acts Prohibited for Persons Affiliated with the Tender Offeror, etc.)

Article 167 (1) A person set forth in one of the following items (hereinafter referred to as a "Person Affiliated with the Tender Offeror, etc." in this Article) that comes to know the fact that a Tender Offer, etc. will be launched by the person launching a Tender Offer provided for in Article 27-2, paragraph (1) (but only if the main clause of that paragraph applies) or an act specified as equivalent thereto by Cabinet Order or by the person launching a Tender Offer provided for in Article 27-22-2, paragraph (1) (hereinafter collectively referred to as a "Tender Offer, etc." in this Article) for Share Certificates, etc. provided for in Article 27-2, paragraph (1) that are listed on a Financial Instruments Exchange or that fall under the category of Over-the-Counter Traded Securities or Tradable Securities (hereinafter referred to as "Listed or Other Share Certificates, etc." in this Article) (such a person is hereinafter referred to as the "Tender Offeror, etc." in this Article) or the fact that a Tender Offer, etc. will be suspended by such Tender Offeror, etc. in a manner as prescribed in the relevant item, must not effect a purchase, etc. (meaning a purchase of Specified

Share Certificates, etc. as defined below and Related Share Certificates, etc. as defined below (hereinafter collectively referred to as "Share Certificates, etc." in this Article) or other transaction designated by Cabinet Order; hereinafter the same applies in this Article) of the Listed or Other Share Certificates, etc. subject to the Tender Offer, etc., or of share certificates or corporate bond certificates with share options issued by the company issuing those Listed or Other Share Certificates, etc. or other Securities specified by Cabinet Order (hereinafter referred to as "Specified Share Certificates, etc." in this Article), or of Securities set forth in Article 2, paragraph (1), item (xix) that indicate Options on Specified Share Certificates, etc. or other Securities specified by Cabinet Order (hereinafter referred to as "Related Share Certificates, etc." in this paragraph) if the person comes to know the fact that the Tender Offer, etc. will be launched, and must not effect the sale, etc. (meaning the sale of Share Certificates, etc. and other transactions specified by Cabinet Order; hereinafter the same applies in this Article) of Share Certificates, etc. subject to the Tender Offer, etc., if the person comes to know the fact that the Tender Offer, etc. will be suspended, before the fact that the Tender Offer, etc. will be launched or the fact that the Tender Offer, etc. will be suspended is disclosed. The same applies for one year to a Person Affiliated with the Tender Offeror, etc. that comes to know the fact that a Tender Offer, etc. will be launched or the fact that a Tender Offer, etc. will be suspended in a manner prescribed in one of the following items, even after that person ceases to be the Person Affiliated with the Tender Offeror, etc. set forth in the relevant item:

- (i) the Officer, etc. of the Tender Offeror, etc. (including its Parent Company, if the Tender Offeror, etc. is a corporation; hereinafter the same applies in this paragraph) (or, if the Tender Offeror, etc. is a person other than a corporation, its agent or employee): coming to know the relevant fact in the course of duty;
- (ii) a shareholder of the Tender Offeror, etc. which has the right prescribed in Article 433, paragraph (1) of the Companies Act, or a member of the Tender Offeror, etc. which has the right prescribed in Article 433, paragraph (3) of that Act (including the Officer, etc. of such a shareholder or member, if such a shareholder or member is a corporation, and the agent or employee of such a shareholder or member, if such a shareholder or member is a person other than a corporation): coming to know the relevant fact in the course of exercising that right;
- (iii) a person that has statutory authority over the Tender Offeror, etc.: coming to know the relevant fact in the course of exercising that authority;
- (iv) a person other than the Officer, etc. of the Tender Offeror, etc., if the Tender Offeror, etc. is a corporation, a person other than the agent or employee of the Tender Offeror, etc., if the Tender Offeror, etc. is a person

- other than a corporation, which has concluded, or is in negotiations to conclude, a contract with the Tender Offer, etc. (including the Officer, etc. of such a person, if such a person is a corporation, and the agent or employee of such a person, if such a person is a person other than a corporation): coming to know the relevant fact in the course of concluding, negotiating, or performing that contract; or
- (v) the Officer, etc. of a person set forth in item (ii) or the preceding item which is a corporation (but only the Officer, etc. of a corporation at which another Officer, etc. comes to know the fact that the Tender Offer, etc. will be launched or the fact that the Tender Offer, etc. will be suspended by the Tender Offeror, etc. pursuant to item (ii) or the preceding item): coming to know the relevant fact in the course of duty.
- (2) The fact that a Tender Offer, etc. will be launched or the fact that a Tender Offer, etc. will be suspended as provided for in the preceding paragraph means the fact that the Tender Offeror, etc. (or the organ that is responsible for making decisions about the execution of operations at the Tender Offeror, etc., if the Tender Offeror, etc. is a corporation; hereinafter the same applies in this paragraph) has decided to launch a Tender Offer, etc. or that it has decided not to launch a Tender Offer, etc. that it had decided to launch (limited to decisions that have already been disclosed); provided, however, that this does not apply to a fact that falls under the criteria specified by Cabinet Office Ordinance as one that has only a minor influence on investors' investment decisions.
- (3) It is prohibited for a person that receives information from the Person Affiliated with a Tender Offeror, etc. (including a person prescribed in the second sentence of paragraph (1); hereinafter the same applies in this paragraph) about the fact that a Tender Offer, etc. will be launched or the fact that a Tender Offer, etc. will be suspended (hereinafter referred as to the "Facts of the Tender Offer, etc." in this Article) as provided in that paragraph, which the Person Affiliated with the Tender Offeror, etc. comes to know in a manner prescribed in one of the items of that paragraph (other than a person that is set forth in one of the items of paragraph (1) and that comes to know the Facts of the Tender Offer, etc. in the manner prescribed in the relevant item), or for another Officer, etc., at a corporation to which the person that comes to know the Facts of the Tender Offer, etc. in the course of duty is affiliated, that comes to know the Facts of the Tender Offer, etc. in connection with that person's duties, to effect a purchase, etc. of the Share Certificates, etc. subject to the Tender Offer, etc., if the person has received information about the fact that a Tender Offer, etc. will be launched as provided in that paragraph, and to effect a sale, etc. of the Share Certificates, etc. subject to the Tender Offer, etc., if the person has received information about the fact that a Tender Offer, etc. will be suspended as provided in that paragraph, before the

Facts of the Tender Offer, etc. are disclosed.

- (4) The disclosure referred to in paragraph (1) to the preceding paragraph inclusive has been made once measures specified by Cabinet Order as measures for putting information into a format that makes it available to a large number of persons are taken by the Tender Offeror, etc. with regard to the Facts of the Tender Offer, etc.; once a public notice under Article 27-3, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)) or a public notice or public announcement under Article 27-11, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)) is issued; or once the Tender Offer Statement or Written Tender Offer Withdrawal Notice referred to in Article 27-14, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2); hereinafter the same applies in this paragraph) is made available for public inspection pursuant to Article 27-14, paragraph (1).
- (5) The provisions of paragraphs (1) and (3) do not apply in the following cases:
- (i) a person with the right prescribed in Article 202, paragraph (1), item (i) of the Companies Act acquires share certificates by exercising that right;
  - (ii) a person with a share option acquires share certificates by exercising that share option;
  - (ii)-2 a person that has acquired an Option on Share Certificates, etc. effects a purchase, etc. or sale, etc. of Share Certificates, etc. by exercising that Option;
  - (iii) a purchase of shares is demanded under Article 116, paragraph (1); Article 469, paragraph (1); Article 785, paragraph (1); Article 797, paragraph (1); or Article 806, paragraph (1) of the Companies Act, or a purchase, etc. or sale, etc. of Share Certificates, etc. is made based on statutory obligations;
  - (iv) a purchase, etc. of the Listed or Other Share Certificates, etc. that are subject to the Tender Offer, etc. (including an Option for the purchase and sale of such Listed or Other Share Certificates, etc.; hereinafter the same applies in this item) is effected as per the request of the Tender Offeror, etc. (limited to a request that the board of directors of the Tender Offeror, etc. have decided to make, if the Tender Offeror, etc. is a company (this includes a request that the executive officer has decided to make, if it is a company with committees)) (but only if the purchase, etc. of the Listed or Other Share Certificates, etc. is effected for the purpose of selling, etc. the Listed or Other Share Certificates, etc. to the Tender Offeror, etc.);
  - (v) a purchase, etc. of the Listed or Other Share Certificates, etc. that are subject to the Tender Offer, etc. (these include Options for the purchase and sale of such Listed or Other Share Certificates, etc.) is effected as per a request that the board of directors of the company issuing the Listed or Other Share Certificates, etc. have decided to make (including a request that

- the executive officer has decided to make, if it is a company with committees) in order to cope with the Tender Offer, etc.;
- (vi) a purchase, etc. or sale, etc. of Share Certificates, etc. is effected pursuant to the provisions of Cabinet Order referred to in Article 159, paragraph (3);
  - (vii) a person that comes to know the fact that a Tender Offer, etc. will be launched as prescribed in paragraph (1) effects a purchase, etc. from another person that knows the fact that the Tender Offer, etc. will be launched, through neither a Financial Instruments Exchange Market nor a Over-the-Counter Securities Market, or a person that comes to know the fact that a Tender Offer, etc. will be suspended as provided in paragraph (1) effects a sale, etc. to another person that knows the fact that the Tender Offer, etc. will be suspended, through neither a Financial Instruments Exchange Market nor a Over-the-Counter Securities Market (unless both parties to the sale, etc. know that a further sale, etc. of the Share Certificates, etc. linked to that sale, etc. will be effected that is in violation of the provisions of paragraph (1) or (3)); or
  - (viii) a purchase, etc. or sale, etc. is effected in performance of a contract for the purchase, etc. or sale, etc. of the Share Certificates, etc. that are subject to the Tender Offer, etc., which is concluded before the person comes to know the Facts of the Tender Offer, etc. launched by the Tender Offeror, etc. or in implementation of a plan for the purchase, etc. or sale, etc. of the Share Certificates, etc. subject to the Tender Offer, etc. which is decided before the relevant person comes to know the Facts of the Tender Offer, etc. launched by the Tender Offeror, etc., or a purchase, etc. or sale, etc. is effected that is obviously based on other special circumstances equivalent to such a case (limited to a case specified by Cabinet Office Ordinance).

(Prohibition on Trading in an Unlicensed Market)

Article 167-2 It is prohibited for any person to effect the following transactions on a Financial Instruments Market established in violation of Article 80, paragraph (1):

- (i) the purchase and sale of Securities; or
- (ii) a Market Transaction of Derivatives.

(Prohibition on Issuing Public Notice of False Quotations)

Article 168 (1) It is prohibited for any person to issue public notice of a false quotation on the market price of Securities, etc., to prepare documents that contain a false quotation on the market price of Securities, etc. with the aim of issuing a public notice with or distributing them, or to distribute such documents.

(2) It is prohibited for any person to accede to the request of the Issuer, person

making a Secondary Distribution of Securities, person making an exclusive Offer to Sell, etc. to Professional Investors, Underwriter, or Financial Services Provider, etc., and prepare documents that contain a false statement about a material particular in respect of Securities issued by, apportioned to, or dealt by that person, with the aim of issuing a public notice or distributing such documents, or to accede to such a request and distribute such documents.

(3) It is prohibited for the Issuer, person making a Secondary Distribution of Securities, person making an exclusive Offer to Sell, etc. to Professional Investors, Underwriter, or Financial Services Provider, etc. to make the request referred to in the preceding paragraph.

(Restriction on the Receipt of Consideration for Presenting an Opinion in the Newspaper)

Article 169 Any person that receives or promises to receive consideration from an Issuer, person making a Secondary Distribution of Securities, person making an exclusive Offer to Sell, etc. to Professional Investors, Underwriter, or Financial Services Provider, etc., or from a Tender Offeror, etc. provided for in Article 27-3, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)), to publish an opinion that seems to provide an assessment of investing in respect of a Security or Issuer or in respect of a Tender Offeror provided for in Article 27-3, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)) in a newspaper or magazine, or to present this to the public in writing, through broadcasting, in a film, or by any other means, must convey that the person has received or promised to receive consideration for doing so, together with the opinion; provided, however, that this does not apply if a person that receives or promises to receive an advertising fee presents the opinion as an advertisement in exchange for the advertising fee.

(Prohibition on Representing a Purchase as Advantageous)

Article 170 In soliciting offers to acquire newly issued Securities or in offering to sell or soliciting offers to purchase already-issued Securities to many and unspecified persons (referred to as "Solicitation to Many and Unspecified Number of Persons for Securities" in the following Article), it is prohibited for any person to represent to such many and unspecified persons that it or any other person will purchase the Securities acquired by those many and unspecified persons at a predetermined price or more (including a price calculated from a predetermined amount using fixed criteria; hereinafter the same applies in this Article), or that it or any other person will arrange for such Securities to be sold at a predetermined price or more, and it is prohibited for any person to make a representation that could give rise to the

misconception that this is what is being represented; provided, however, that this does not apply if the Securities are Securities set forth in Article 2, paragraph (1), items (i) to (vi) inclusive or other Securities specified by Cabinet Office Ordinance.

(Prohibition on Representations about a Fixed Amount of Dividends)

Article 171 In a Solicitation to Many and Unspecified Number of Persons for Securities (excluding a solicitation involving the Securities set forth in Article 2, paragraph (1), items (i) to (vi) inclusive or other Securities specified by Cabinet Office Ordinance; hereinafter the same applies in this Article), it is prohibited for the person issuing the Solicitation to Many and Unspecified Number of Persons for Securities, its officer, advisor, consultant, or other person in an equivalent position, or its agent, employee, or other worker to make a representation to many and unspecified persons indicating that a fixed amount of money or more (including an amount that can be calculated in advance using fixed criteria; hereinafter the same applies in this Article) (including anything that can be disposed of to generate a fixed amount or of money or more) will be provided for the Securities after a certain period (including a representation that could give rise to the misconception that this is what is being represented), as a dividend of profits, distribution of profits, or any other kind of apportionment, regardless of what it is called; provided however, that this does not apply if it is clearly indicated that such representation only indicates an expectation.

## **Chapter VI-2 Administrative Surcharges**

### **Section 1 Payment Orders**

(Issuance of an Administrative Surcharge Payment Order against a Person Conducting a Public Offering of Securities Without Having Its Notification Accepted by the Prime Minister)

Article 172 (1) If, in respect of a Public Offering or Secondary Distribution of Securities subject to a notification under Article 4, paragraph (1), a General Solicitation Involving Securities Acquired by a Qualified Institutional Investor subject to a notification under Article 4, paragraph (2), or a General Solicitation Involving Securities Acquired by a Professional Investor subject to a notification under Article 4, paragraph (3), a person conducts a Public Offering or Secondary Distribution, or issues a General Solicitation Involving Securities Acquired by a Qualified Institutional Investor or a General Solicitation Involving Securities Acquired by a Professional Investor without having the notifications for them accepted by the Prime Minister (for a person that makes a Secondary Distribution or that issues a General Solicitation

Involving Securities Acquired by a Qualified Institutional Investors or a General Solicitation Involving Securities Acquired by a Professional Investor, this is limited to a person that engages in any of these acts in connection with the Securities owned by that person), the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order that person to pay an administrative surcharge to the national treasury that is equivalent to the amount specified in the relevant of the following items for the category of cases set forth in that item (if the person falls under both of the following items, the total of the amounts specified in those items):

- (i) the person causes the Securities to be acquired through such a Public Offering: 2.25 percent (or 4.5 percent, if the Securities are share certificates, etc. (meaning share certificates, preferred equity investment certificates under the Act on Preferred Equity Investment, and other Securities specified by Cabinet Order as being equivalent to them; hereinafter the same applies in this Article, the following Article, Article 172-9, and Article 172-10)) of the total issue value of the Securities it causes to be acquired (if the Securities are share option certificates or any other Securities specified by Cabinet Office Ordinance as being equivalent to them, the total issue value includes the amount to be paid in upon the exercise of the share options under the share option certificates or any other amount specified by Cabinet Office Ordinance as being equivalent to this); and
  - (ii) the person sells Securities it owns through such a Secondary Distribution, General Solicitation Involving Securities Acquired by a Qualified Institutional Investor, or General Solicitation Involving Securities Acquired by a Professional Investor: 2.25 percent (or 4.5 percent, if the Securities are share certificates, etc.) of the total distribution value of the Securities it sells (if the Securities are share option certificates or any other Securities specified by Cabinet Office Ordinance as being equivalent to them, the total distribution value includes the amount to be paid in upon the exercise of the share options under the share option certificates or any other amount specified by Cabinet Office Ordinance as being equivalent to this).
- (2) If an Issuer violates the provisions of Article 15, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27) in causing Securities set forth in Article 15, paragraph (1) to be acquired through a Public Offering (meaning a Public Offering of Securities as prescribed in Article 4, paragraph (1); hereinafter the same applies in this Chapter, except in Articles 173 to 174-3 inclusive) or if a person violates such provisions in selling such Securities through a Secondary Distribution (meaning a Secondary Distribution of Securities prescribed in Article 4, paragraph (4); the same applies in this Chapter, except in the following paragraph; Article 172-2, paragraphs (4) and (5); Article 178, paragraphs (3), (5), and (8); and Article 185-7, paragraphs (12)

and (13)) (limited to a person that sells Securities that it owns), the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order the Issuer or that person to pay an administrative surcharge to the national treasury that is equivalent to the amount specified in the relevant of the following items for the category of cases set forth in that item (or, if the Issuer or person falls under both of the following items, the total of the amounts specified in those items):

- (i) the Issuer causes Securities to be acquired through such a Public Offering: 2.25 percent (or 4.5 percent, if the Securities are share certificates, etc.) of the total issue value of the Securities it causes to be acquired (if the Securities are share option certificates or any other Securities specified by Cabinet Office Ordinance as being equivalent to them, the total issue value includes the amount to be paid in upon the exercise of the share options under those share option certificates or any other amount specified by Cabinet Office Ordinance as being equivalent to this);
  - (ii) the person sells Securities that it owns through such a Secondary Distribution: 2.25 percent (or 4.5 percent, if the Securities are share certificates, etc.) of the total distribution value of the Securities it sells (if the Securities are share option certificates or any other Securities specified by Cabinet Office Ordinance as being equivalent to them, the total distribution value includes the amount to be paid in upon the exercise of the share options under those share option certificates or any other amount specified by Cabinet Office Ordinance as being equivalent to this).
- (3) If a person violates the provisions of Article 15, paragraph (2) (including as applied *mutatis mutandis* pursuant to Article 27) in selling Securities that it owns through a Secondary Distribution without delivering a Prospectus (limited to a Prospectus in a Secondary Distribution of Securities for Which Disclosure Has Already Been Made as prescribed in Article 13, paragraph (1) (meaning a Secondary Distribution of the Securities prescribed in that paragraph; hereinafter the same applies in this paragraph; Article 172-2, paragraphs (4) and (5); Article 178, paragraphs (5) and (8); and Article 185-7, paragraph (12); hereinafter the same applies in this Chapter), the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order that person to pay an administrative surcharge to the national treasury that is equivalent to 2.25 percent (or 4.5 percent, if the Securities are share certificates, etc.) of the total distribution value of the Securities it sells (if the Securities are share option certificates or any other Securities specified by Cabinet Office Ordinance as being equivalent to them, the total distribution value includes the amount to be paid in upon the exercise of the share options under those share option certificates or any other amount specified by Cabinet Office Ordinance as being equivalent to this).

(4) The provisions of paragraph (2) apply mutatis mutandis if an Issuer violates the provisions of Article 23-8, paragraph (1) (including the cases where it is applied mutatis mutandis pursuant to Article 27) in causing Securities specified in that paragraph to be acquired through a Public Offering or if a person violates such provisions in selling those Securities through a Secondary Distribution (limited to a person selling Securities that it owns).

(Issuance of an Administrative Surcharge Payment Order against an Issuer That Submits Offering Disclosure Documents Containing a False Statement)

Article 172-2 (1) If an Issuer that submits an Offering Disclosure Document that contains a false statement about a material particular or omits a statement as to a material particular that is required to be stated, causes Securities to be acquired or sells Securities through a Public Offering or Secondary Distribution (limited to a Secondary Distribution of Securities that it owns) based on such an Offering Disclosure Document, the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order that Issuer to pay an administrative surcharge to the national treasury that is equivalent to the amount specified in the relevant of the following items for the category of cases set forth in that item (if the Issuer falls under both of the following items, the total of the amounts specified in those items):

(i) the Issuer causes the Securities to be acquired through a Public Offering based on such an Offering Disclosure Document: 2.25 percent (or 4.5 percent, if the Securities are share certificates, etc.) of the total issue value of the Securities it causes to be acquired (if the Securities are share option certificates or any other Securities specified by Cabinet Office Ordinance as being equivalent to them, the total issue value includes the amount to be paid in upon the exercise of the share options under those share option certificates or any other amount specified by Cabinet Office Ordinance as being equivalent to this); or

(ii) the Issuer sells Securities it owns through a Secondary Distribution based on such an Offering Disclosure Document: 2.25 percent (or 4.5 percent, if the Securities are share certificates, etc.) of the total distribution value of the Securities it sells (if the Securities are share option certificates or any other Securities specified by Cabinet Office Ordinance as being equivalent to them, the total distribution value includes the amount to be paid in upon the exercise of the share options under those share option certificates or any other amount specified by Cabinet Office Ordinance as being equivalent to this).

(2) If an Issuer submits an Offering Disclosure Document that contains a false statement about a material particular or that omits a statement as to a material particular that is required to be stated, and an officer, etc. of that

Issuer (meaning an officer, agent, employee, or other worker of the Issuer; hereinafter the same applies in this paragraph, paragraph (5) and Article 172-10, paragraph (2)) that is involved in the submission of the Offering Disclosure Document with the knowledge that the Offering Disclosure Document contains a false statement or omits a statement as to a material particular that is required to be stated, sells Securities that the officer, etc. owns through a Secondary Distribution based on such an Offering Disclosure Document, the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order that officer, etc. to pay an administrative surcharge to the national treasury that is equivalent to 2.25 percent (or 4.5 percent, if the Securities are share certificates, etc.) of the total distribution value of the Securities the officer, etc. sells (if the Securities are share option certificates or any other Securities specified by Cabinet Office Ordinance as being equivalent to them, the total distribution value includes the amount to be paid in upon the exercise of the share options under those share option certificates or any other amount specified by Cabinet Office Ordinance as being equivalent to this).

- (3) The term "Offering Disclosure Document" as used in the preceding two paragraphs means a statement and other documents under Article 5 (including as applied mutatis mutandis pursuant to Article 27) (including a Reference Document for the statement and other documents, if the statement is one to which the provisions of Article 5, paragraph (4) apply), an amended statement under Article 7, Article 9, paragraph (1), or Article 10, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27) (including a Reference Document for the amended statement), a Shelf Registration Statement under Article 23-3, paragraphs (1) and (2) (including as applied mutatis mutandis pursuant to Article 27) (including a Reference Document for the Shelf Registration Statement) and accompanying documents, as well as an Amended Shelf Registration Statement under Article 23-4, Article 23-9, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27) or Article 23-10, paragraph (1) (including as applied mutatis mutandis pursuant to Article 23-10, paragraph (5) (including as applied mutatis mutandis pursuant to Article 27) and Article 27) (including a Reference Document for the Amended Shelf Registration Statement) or Shelf Registration Supplement (including a Reference Document for the Shelf Registration Supplement) under Article 23-8, paragraphs (1) and (5) (including as applied mutatis mutandis pursuant to Article 27) (including a Reference Document for the Shelf Registration Supplement) and accompanying documents .
- (4) The provisions of paragraph (1) (excluding item (i)) apply mutatis mutandis if an Issuer that uses a Prospectus that contains a false statement about a material particular (limited to one that constitutes a particular set forth in one of the items of Article 5, paragraph (1) (including as applied mutatis mutandis

pursuant to Article 27); hereinafter the same applies in this and the following paragraph) or omits a statement as to a material particular that is required to be stated sells Securities that it owns through a Secondary Distribution involving such a Prospectus.

- (5) The provisions of paragraph (2) apply mutatis mutandis if an Issuer uses a Prospectus that contains a false statement about a material particular or omits a statement as to a material particular that is required to be stated, and an officer, etc. of that Issuer that is involved in the preparation of that Prospectus with the knowledge that the Prospectus contains a false statement or omits a statement as to a material particular that is required to be stated, sells Securities that the officer, etc. owns through a Secondary Distribution that involves such a Prospectus.
- (6) If an Issuer that is required to submit an amended Offering Disclosure Document (meaning an amended statement under the first sentence of Article 7 (including as applied mutatis mutandis pursuant to Article 27) or an Amended Shelf Registration Statement under the first sentence of Article 23-4 (including as applied mutatis mutandis pursuant to Article 27); hereinafter the same applies in this Chapter) causes Securities to be acquired or sells Securities through a Public Offering or Secondary Distribution (limited to a Secondary Distribution of Securities that the Issuer owns) without submitting the amended Offering Disclosure Document, the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order that Issuer to pay an administrative surcharge to the national treasury that is equivalent to the amount specified in the relevant of the following items for the category of cases set forth in that item (if the Issuer falls under both of the following items, the total of the amounts specified in those items):
- (i) the Issuer causes the Securities to be acquired through a Public Offering without submitting the amended Offering Disclosure Document: 2.25 percent (or 4.5 percent, if the Securities are share certificates, etc.) of the total issue value of the Securities it causes to be acquired (if the Securities are share option certificates or any other Securities specified by Cabinet Office Ordinance as being equivalent to them, the total issue value includes the amount to be paid in upon the exercise of the share options under those share option certificates or any other amount specified by Cabinet Office Ordinance as being equivalent to them); or
  - (ii) the Issuer sells Securities that it owns through a Secondary Distribution without submitting the amended Offering Disclosure Document: 2.25 percent (or 4.5 percent, if the Securities are share certificates, etc.) of the total distribution value of the Securities that it sells (if the Securities are share option certificates or any other Securities specified by Cabinet Office Ordinance as being equivalent to them, the total distribution value includes

the amount to be paid in upon the exercise of the share options under those share option certificates or any other amount specified by Cabinet Office Ordinance as being equivalent to this).

(Issuance of an Administrative Surcharge Payment Order against an Issuer That Fails to Submit an Annual Report)

- Article 172-3 (1) If an Issuer violates the provisions of Article 24, paragraph (1) or (3) (including as applied mutatis mutandis pursuant to Article 24, paragraph (5), and also including as applied mutatis mutandis pursuant to Article 27) in failing to submit an Annual Report, the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order the Issuer to pay an administrative surcharge to the national treasury that is equivalent to the amount of the audit certification fee (meaning the amount of money or value of other assets as specified by Cabinet Office Ordinance which has been paid or is payable as consideration for the audit certification set forth in Article 193-2, paragraph (1); the same applies in the following paragraph) for the business year immediately preceding the business year for which the Annual Report was required to be submitted pursuant to these provisions (if the Issuer falls under the category of an Issuer of regulated Securities set forth in Article 5, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27), the business year immediately preceding the Specified Period set forth in Article 24, paragraph (1) as applied mutatis mutandis pursuant to Article 24, paragraph (5) (including as applied mutatis mutandis pursuant to Article 27) in relation to such regulated Securities; hereinafter the same applies in this Article, Article 172-4, paragraph (1), and Article 185-7, paragraph (29) (excluding item (v)) (or, if there is no such immediately preceding business year for which an audit certification is required or in other cases specified by Cabinet Office Ordinance as being equivalent thereto, four million yen).
- (2) If an Issuer violates the provisions of Article 24-4-7, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (3) of that Article, and also including as applied mutatis mutandis pursuant to Article 27) or Article 24-5, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (3) of that Article, and also including as applied mutatis mutandis pursuant to Article 27) in failing to submit a Quarterly Report or Semiannual Report (hereinafter referred to as a "Quarterly or Semiannual Securities Report" in this Chapter), the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order the Issuer to pay an administrative surcharge to the national treasury that is equivalent to half of the amount of the audit certification fee for the business year immediately preceding the business year that includes the period for which the Quarterly or

Semiannual Report was required to be submitted pursuant to such provisions (or, if there is no such immediately preceding business year for which an audit certification is required or in other cases specified by Cabinet Office Ordinance as being equivalent thereto, two million yen).

(Issuance of an Administrative Surcharge Payment Order against an Issuer That Submits an Annual Report Containing a False Statement)

Article 172-4 (1) If an Issuer submits an Annual Report, etc. (meaning an Annual Report as prescribed in Article 24, paragraph (1) or (3) (including as applied mutatis mutandis pursuant to Article 24, paragraph (5) and also including as applied mutatis mutandis pursuant to Article 27) and Article 24, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27) and accompanying documents, or an amended report as prescribed in Article 7, Article 9, paragraph (1), or Article 10, paragraph (1) as applied mutatis mutandis pursuant to Article 24-2, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27); hereinafter the same applies in this Chapter) that contains a false statement about a material particular or that omits a statement as to a material particular that is required to be stated, the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order the Issuer to pay an administrative surcharge to the national treasury that is equivalent to the amount specified in item (i) (or, if the amount set forth in item (ii) exceeds the amount set forth in item (i), the amount set forth in item (ii)); provided, however, that if the Issuer's business year is other than one year in length, the Prime Minister must order the Issuer to pay an administrative surcharge to the national treasury that is equivalent to the amount arrived at when the number of months in its business year is divided by 12 and the quotient is multiplied by the relevant of such amounts.

(i) six million yen; or

(ii) the amount arrived at when the amount specified in sub-item (a) is multiplied by the number specified in sub-item (b):

(a) the total market value of index Securities for calculation (meaning share certificates, preferred equity investment certificates under the Act on Preferred Equity Investment, and other Securities specified by Cabinet Order as being equivalent to them; hereinafter the same applies in this item and Article 172-11, paragraph (1)) issued by the Issuer, as calculated pursuant to the provisions of Cabinet Office Ordinance (if the index Securities for calculation have no market value or if the Issuer has not issued any index Securities for calculation, the amount calculated pursuant to the provisions of Cabinet Order as being equivalent to this); and

(b) six hundred thousandths.

- (2) If an Issuer submits a Quarterly, Semiannual, or Ad Hoc Report, etc. (meaning a Quarterly Report under Article 24-4-7, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 24-4-7, paragraph (3), and also including as applied mutatis mutandis pursuant to Article 27), a Semiannual Report or Ad Hoc Report under Article 24-5, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24-5, paragraph (3)) or paragraph (4) of that Article (including as applied mutatis mutandis pursuant to Article 27), or an amended report under Article 7, Article 9, paragraph (1), or Article 10, paragraph (1) as applied mutatis mutandis pursuant to Article 24-4-7, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27) and Article 24-5, paragraph (5) (including as applied mutatis mutandis pursuant to Article 27); hereinafter the same applies in this Chapter), which contains false statement about a material particular or omits a statement as to a material particular that is required to be stated, the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order the Issuer to pay an administrative surcharge to the national treasury that is equivalent to half of the amount set forth in item (i) of the preceding paragraph (or, if the amount set forth in item (ii) of that paragraph exceeds the amount set forth in item (i) of that paragraph, the amount set forth in item (ii) of that paragraph). In such a case, the proviso to the preceding paragraph applies mutatis mutandis.
- (3) The provisions of the preceding paragraph apply mutatis mutandis if an Issuer fails to submit an Ad Hoc Report under Article 24-5, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27) stating the particulars specified by Cabinet Office Ordinance as having a material influence on investors' investment decisions.
- (4) The number of months referred to in the proviso to paragraph (1) (including as applied mutatis mutandis pursuant to the second sentence of paragraph (2) (including as applied mutatis mutandis pursuant to the preceding paragraph)) is calculated in accordance with the calendar, and if a period of less than one month is subject to calculation, it is counted as one month.

(Issuance of an Administrative Surcharge Payment Order against a Person Effecting a Purchase, etc. of Share Certificates, etc. Without Issuing Public Notice of the Commencement of a Tender Offer)

Article 172-5 If a person violates the provisions of Article 27-3, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2); hereinafter the same applies in this Article) in effecting a purchase, etc. (meaning a purchase, etc. as prescribed in Article 27-2, paragraph (1) or Article 27-22-2, paragraph (1); hereinafter the same applies in this Article, the following Article, and Article 178, paragraph (13)) of Share Certificates, etc.

(meaning the Share Certificates, etc. prescribed in Article 27-2, paragraph (1); hereinafter the same applies in this Article, the following Article and Article 178, paragraph (13)) or Listed Share Certificates, etc. (meaning the Listed Share Certificates, etc. prescribed in Article 24-6, paragraph (1); hereinafter the same applies in this Article, the following Article, Article 178, paragraph (13), and Article 185-7, paragraph (13)), without making the public notice under Article 27-3, paragraph (1) (hereinafter referred to as "Public Notice of the Commencement of a Tender Offer" in this Chapter), the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order that person to pay an administrative surcharge to the national treasury that is equivalent to the amount arrived at when the amount specified in item (i) is multiplied by the amount specified in item (ii).

(i) the amount arrived at when the prices for the purchases, etc. of Share Certificates, etc. or Listed Share Certificates, etc. that it effects without making Public Notice of the Commencement of the Tender Offer, are multiplied by the volumes of those purchases, etc.

(ii) 25 percent.

(Issuance of an Administrative Surcharge Payment Order against a Person Issuing a Public Notice of the Commencement of a Tender Offer That Contains a False Representation)

Article 172-6 (1) If a person makes a Public Notice of the Commencement of a Tender Offer, etc. (meaning a Public Notice of the Commencement of a Tender Offer or a public notice or public announcement amending the contents of a Public Notice of the Commencement of the Tender Offer as prescribed in Article 27-7, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); hereinafter the same applies in this Chapter) that contains a false representation about a material particular or that omits a representation as to a material particular that is required to be represented, or if a person submits a Tender Offer Statement, etc. (meaning a Tender Offer Statement as prescribed in Article 27-3, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)), an amended statement under Article 27-8, paragraphs (1) to (4) inclusive (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)), a Tender Offeror's Answer as prescribed in Article 27-10, paragraph (11), or an amended report under Article 27-8, paragraphs (1) to (4) inclusive as applied mutatis mutandis pursuant to Article 27-10, paragraph (12); hereinafter the same applies in this Chapter) that contains a false statement about a material particular or that omits a statement as to a material particular that is required to be stated, the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order that person to pay an administrative

surcharge to the national treasury that is equivalent to the amount arrived at when the amount specified in item (i) is multiplied by the amount specified in item (ii).

(i) the amount arrived at when the closing price of the Share Certificates, etc. or Listed Share Certificates, etc. subject to the Tender Offer (meaning a Tender Offer as prescribed in Article 27-2, paragraph (1) or Article 27-22-2, paragraph (1); hereinafter the same applies in this Article and Article 185-7, paragraphs (8) and (9)) to which that Public Notice of the Commencement of a Tender Offer, etc. or Tender Offer Statement, etc. pertains (meaning the closing price as set forth in Article 67-19 or Article 130 as of the day immediately preceding the day of the Public Notice of the Commencement of the Tender Offer (or, if there is no such price, the amount specified by Cabinet Office Ordinance as being equivalent to this), is multiplied by the number of Share Certificates, etc. or Listed Share Certificates, etc. that the person purchases, etc. through that Tender Offer.

(ii) 25 percent.

(2) The provisions of the preceding paragraph apply mutatis mutandis if a person fails to submit an Amended Tender Offer Statement, etc. (meaning a Tender Offer Statement as prescribed in Article 27-3, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)), an amended statement under Article 27-8, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)), a Tender Offeror's Answer as prescribed in Article 27-10, paragraph (11), or an amended report under Article 27-8, paragraph (2) as applied mutatis mutandis pursuant to Article 27-10, paragraph (12); hereinafter the same applies in this Chapter).

(Issuance of an Administrative Surcharge Payment Order against a Person That Fails to Submit a Statement of Large-Volume Holdings or Changes)

Article 172-7 If a person violates the provisions of Article 27-23, paragraph (1), Article 27-25, paragraph (1), or Article 27-26, paragraph (1), (2), (4), or (5) in failing to submit a Statement of Large-Volume Holdings or a Statement of Changes (hereinafter referred to as a "Statement of Large-Volume Holdings or Changes" in this Chapter), the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order that person to pay an administrative surcharge to the national treasury that is equivalent to the amount arrived at when the amount specified in item (i) is multiplied by the amount specified in item (ii).

(i) the amount arrived at when the closing price as provided in Article 67-19 or Article 130, of the day after that on which the person is required to submit a Statement of Large-Volume Holdings or Changes for share certificates issued by the Issuer (meaning the Issuer as prescribed in Article 27-23, paragraph

(1); hereinafter the same applies in this and the following Articles) of Share Certificates, etc. (meaning Share Certificates, etc. as prescribed in Article 27-23, paragraph (1); the same applies in the following Article) that are the subject of the Statement of Large-Volume Holdings or Changes that the person is required to submit or the closing price of Securities specified by Cabinet Office Ordinance as being equivalent to such share certificates on that day, is multiplied by the Issuer's total number of issued shares as of that day or by the number specified by Cabinet Office Ordinance as being equivalent to this (or, if there is no such price, the amount calculated pursuant to the provisions of Cabinet Office Ordinance as being equivalent to this).

(ii) one hundred thousandths.

(Issuance of an Administrative Surcharge Payment Order against a Person Submitting a Statement of Large-Volume Holdings or Changes That Contains a False Statement)

Article 172-8 If a person submits a Statement of Large-Volume Holdings or Changes, etc. (meaning a Statement of Large-Volume Holdings or Changes or an amended statement under prescribed in Article 9, paragraph (1) or Article 10, paragraph (1) as applied mutatis mutandis pursuant to Article 27-25, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27-26, paragraph (6)) or Article 27-29, paragraph (1); hereinafter the same applies in this Chapter) that contains a false statement about a material particular or that omits a statement as to a material particular that is required to be stated, the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order that person to pay an administrative surcharge to the national treasury that is equivalent to the amount arrived at when the amount specified in item (i) is multiplied by the amount specified in item (ii).

(i) the amount arrived at when the closing price as provided in Article 67-19 or Article 130, on of the day after that on which the person is required to submit a Statement of Large-Volume Holdings or Changes for share certificates issued by the Issuer of Share Certificates, etc. that are the subject of that Statement of Large-Volume Holdings or Changes or the closing price of Securities specified by Cabinet Office Ordinance as being equivalent to such share certificates on that day, is multiplied by the Issuer's total number of issued shares as of that day or by the number specified by Cabinet Office Ordinance as being equivalent to this (or, if there is no such price, the amount calculated pursuant to the provisions of Cabinet Office Ordinance as being equivalent to this).

(ii) one hundred thousandth.

(Issuance of an Administrative Surcharge Payment Order against a Person That Issues a Specified Solicitation, etc. Without Providing or Disclosing Specified Information on Securities)

Article 172-9 If a person issues a Specified Solicitation, etc. (if the person issues a Specified Offer to Sell, etc., this is limited to a Specified Offer to Sell, etc. Securities that the person owns) even though the Issuer of the Securities has not provided the other party with or disclosed the Specified Information on Securities, etc. for the relevant Securities pursuant to the provisions of Article 27-31, paragraph (2), the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order that person to pay an administrative surcharge to the national treasury that is equivalent to the amount specified in the relevant of the following items for the category of cases set forth in that item (if the person falls under both of the following items, the total of the amounts specified in those items):

- (i) the person causes the Securities to be acquired through an Exclusive Solicitation of Offers to Acquire: 2.25 percent (or 4.5 percent, if the Securities are share certificates, etc.) of the total issue value of the Securities acquired (if the Securities are share option certificates or any other Securities specified by Cabinet Office Ordinance as being equivalent to them, the total issue value includes the amount to be paid in upon the exercise of the share options under those share option certificates or any other amount specified by Cabinet Office Ordinance as being equivalent to this).
- (ii) if the person sells Securities that it owns through a Specified an Offer to Sell, etc.: 2.25 percent (or 4.5 percent, if the Securities are share certificates, etc.) of the total price of the Securities that it sells (if the Securities are share option certificates or any other Securities specified by Cabinet Office Ordinance as being equivalent to them, the total price includes the amount to be paid in upon the exercise of the share options under those share option certificates or any other amount specified by Cabinet Office Ordinance as being equivalent to this).

(Administrative Surcharge Payment Order against Issuer, etc. which Has Provided or Disclosed Specified Information on Securities, etc. That Contains a Falsity)

Article 172-10 (1) If an Issuer that provides or discloses Specified Information on Securities, etc. which contains false information about a material particular or which omits information about a material particular that is required to be provided or disclosed (hereinafter referred to as "Specified Information on Securities, etc. That Contains a Falsity, etc." in this Article, Article 178, paragraph (20), and Article 185-7, paragraph (13)) causes Securities to be acquired or sells Securities through a Specified Solicitation, etc. involving

Specified Information on Securities, etc. That Contains a Falsity, etc. (if this constitutes a Specified an Offer to Sell, etc., it is limited to a Specified Offer to Sell, etc. Securities that the Issuer owns), the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order the Issuer to pay an administrative surcharge to the national treasury in the amount specified in item (i) (if the Specified Information on Securities, etc. That Contains a Falsity, etc. is not disclosed, the amount arrived at when that amount is multiplied by the number set forth in item (ii)):

(i) the amount equivalent to that set forth in the relevant of the following sub-items for the category of cases set forth in that sub-item (or, in a case that falls under both of the following sub-items, the total of the amounts specified in those sub-items):

(a) the Issuer causes Securities to be acquired through an Exclusive Solicitation of Offers to Acquire involving Specified Information on Securities, etc. That Contains a Falsity, etc.: 2.25 percent (or 4.5 percent, if the Securities are share certificates, etc.) of the total issue value of the Securities it causes to be acquired (if the Securities are share option certificates or any other Securities specified by Cabinet Office Ordinance as being equivalent to them, the total issue value includes the amount to be paid in upon the exercise of the share options under those share option certificates or any other amount specified by Cabinet Office Ordinance as being equivalent to this);

(b) the Issuer sells the Securities it owns through a Specified Offer to Sell, etc. involving Specified Information on Securities, etc. That Contains a Falsity, etc.: 2.25 percent (or 4.5 percent, if the Securities are share certificates, etc.) of the total distribution value of the Securities that it sells (if the Securities are share option certificates or any other Securities specified by Cabinet Office Ordinance as being equivalent to them, the total distribution value includes the amount to be paid in upon the exercise of the share options under those share option certificates or any other amount specified by Cabinet Office Ordinance as being equivalent to this).

(ii) the number arrived at when the number set forth in sub-item (a) is divided by the number set forth in sub-item (b):

(a) the number of persons provided with the Specified Information on Securities, etc. That Contains a Falsity, etc.;

(b) the number of persons to which the Specified Solicitation, etc. is issued.

(2) If an Issuer provides or discloses Specified Information on Securities, etc. That Contains a Falsity, etc., and an officer, etc. that is involved in providing or disclosing that Specified Information on Securities, etc. That Contains a Falsity, etc. with the knowledge that the Specified Information on Securities, etc. That Contains a Falsity, etc. contains false information or omits

information about a particular that is required to be provided or disclosed, sells the Securities that the officer, etc. owns through a Specified Offer to Sell, etc. that involves the Specified Information on Securities, etc. That Contains a Falsity, etc., the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order that officer, etc. to pay an administrative surcharge to the national treasury that is equivalent to 2.25 percent (or 4.5 percent, if the Securities are share certificates, etc.) of the total price of the Securities that the officer, etc. sells (if the Securities are share option certificates or any other Securities specified by Cabinet Office Ordinance as being equivalent to them, the total price includes the amount to be paid in upon the exercise of the share options under those share option certificates or any other amount specified by Cabinet Office Ordinance as being equivalent to this) (or, if the Specified Information on Securities, etc. That Contains a Falsity, etc. is not disclosed, this means the amount arrived at when such an amount is multiplied by the number set forth in item (ii) of the preceding paragraph).

(Issuance of an Administrative Surcharge Payment Order against an Issuer That Provides or Discloses Information on the Issuer, etc. That Contains a Falsity)

Article 172-11 (1) If an Issuer provides or discloses Information on the Issuer that contains false information about a material particular or that omits information about a material particular that is required to be provided or disclosed (hereinafter referred to as "Information on the Issuer, etc. That Contains a Falsity, etc." in this paragraph, Article 178, paragraph (21), and Article 185-7, paragraph (13)), the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order the Issuer to pay an administrative surcharge to the national treasury that is equivalent to the amount set forth in item (i) below (if the Information on the Issuer, etc. That Contains a Falsity, etc. is not disclosed, this means the amount arrived at when that amount is multiplied by the number set forth in item (ii)); provided, however, that if the Issuer's business year is other than one year in length, the Prime Minister must order the Issuer to pay an administrative surcharge to the national treasury that is equivalent to the amount arrived at when the number of months in its business year is divided by 12 and the quotient is multiplied by the relevant of such amounts:

- (i) the amount specified in sub-item (a) (or, if the amount set forth in sub-item (b) exceeds that set forth in sub-item (a), the amount set forth in sub-item (b)):
  - (a) six million yen;
  - (b) the amount arrived at when the amount set forth in 1. below is multiplied

by the number set forth in 2. below:

1. the total market value of the index Securities for calculation issued by the Issuer, as calculated pursuant to the provisions of Cabinet Office Ordinance (or, if there is no market value for the index Securities for calculation or if the Issuer has not issued any index Securities for calculation, the amount equivalent thereto as calculated pursuant to the provisions of Cabinet Order);
  2. six hundred thousandths.
- (ii) the number arrived at when the number set forth in sub-item (a) is divided by the number set forth in sub-item (b):
- (a) the number of persons provided with the Information on the Issuer, etc. That Contains a Falsity, etc.;
  - (b) the number of persons to which the Information on the Issuer, etc. is required to be provided, in a case to which the provisions of Article 27-32, paragraphs (1) to (3) inclusive apply.
- (2) The number of months referred to in the proviso to the preceding paragraph is calculated in accordance with the calendar, and if a period of less than one month is subject to calculation, it is counted as one month.

(Issuance of an Administrative Surcharge Payment Order against a Person That Influences the Price of Securities, etc. by Disseminating Unfounded Rumors)

Article 173 (1) If a person, in violation of the provisions of Article 158, spreads unfounded rumors or trades by fraudulent means, or influences the prices of Securities, etc. by spreading those unfounded rumors or trading by those fraudulent means (such an act is hereinafter referred to as a "Violation" and such person is hereinafter referred to as the "Violator" in this Article), the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order the Violator to pay an administrative surcharge to the national treasury that is equivalent to the amount specified in the relevant of the following items for the category of cases set forth in that item (or, if the Violation falls under two or more of the cases set forth in the following items, the total of the amounts specified in those items):

- (i) in the period from the onset to the end of the Violation (hereinafter referred to as the "Duration of the Violation" in this Article), the volume of Securities Sales, etc. that the Violator effects on the Violator's own account for the Securities, etc. involved in the Violation, exceeds the volume of Securities Purchases, etc. that the Violator effects on the Violator's own account as pertains to the Securities, etc. involved in the Violation: the amount arrived at when the amount set forth in sub-item (b) below is deducted from the amount set forth in sub-item (a) below (if the resulting amount is less than

zero, it is deemed to be zero):

(a) the Value of the volume of Securities Sales, etc. that is in excess;

(b) the amount arrived at when the lowest Securities Purchase, etc. price for the relevant Securities, etc., from among the lowest prices as prescribed in Article 67-19 or Article 130 on each day in the period from the end of the Violation until one month has elapsed since it ended (if there is no such lowest price, this means the price specified by Cabinet Office Ordinance as being equivalent to it; the lowest price on the day on which the Violation ends is the amount specified by Cabinet Office Ordinance), is multiplied by the volume that is in excess.

(ii) during the Duration of the Violation, the volume of Securities Purchases, etc. that the Violator effects on the Violator's own account for the Securities, etc. involved in the Violation, exceeds the volume of Securities Sales, etc. of Securities Sales, etc. that the Violator effects on the Violator's own account for the Securities, etc. involved in the Violation: the amount arrived at when the amount set forth in sub-item (b) below is deducted from the amount set forth in sub-item (a) below (if the resulting amount is less than zero, it is deemed to be zero):

(a) the amount arrived at when the highest Securities Sale, etc. price for the relevant Securities, etc., from among the highest prices as prescribed in Article 67-19 or Article 130 on each day in the period from the end of the Violation until one month has elapsed since it ended (if there is no such highest price, this means the price specified by Cabinet Office Ordinance as being equivalent to it; the highest price on the day on which the Violation ends is the amount specified by Cabinet Office Ordinance), is multiplied by the volume that is in excess;

(b) the Value of the volume of Securities Purchases, etc. that is in excess.

(iii) during the period from the onset of the Violation until one month has elapsed since it ended, the Violator causes the Securities involved in the Violation, which the Violator or a person set forth in the items of paragraph (5) issues, to be acquired through a solicitation with a view to issuing new securities or delivers those Securities in a Reorganization (meaning a Reorganization as prescribed in Article 2-2, paragraph (1); hereinafter the same applies in this Chapter): the amount arrived at when the amount set forth in sub-item (b) below is deducted from the amount set forth in sub-item (a) below (if the resulting amount is less than zero, it is deemed to be zero):

(a) the amount arrived at when the highest Securities Purchase, etc. price for the Securities that the Violator causes to be acquired through the solicitation with a view to issuing new securities or delivers in the Reorganization, from among the highest prices as prescribed in Article 67-19 or Article 130 on each day in the period from the end of the Violation

until one month has elapsed since it ended (if there is no such highest price, this means the price specified by Cabinet Office Ordinance as being equivalent to it; the highest price on the day on which the Violation ends is the amount specified by Cabinet Office Ordinance), is multiplied by the volume of Securities that the Violator causes to be acquired through such solicitation with a view to issuing new securities or delivers in the Reorganization;

- (b) the amount arrived at when the price specified by Cabinet Order as the price of the Securities that the Violator causes to be acquired through the solicitation with a view to issuing new securities or delivers in the Reorganization as of the time immediately preceding the Violation (hereinafter referred to as the "Price Immediately Preceding the Violation" in this Article), is multiplied by the volume of the Securities that the Violator causes to be acquired through the solicitation with a view to issuing new securities or delivers in the Reorganization.
  - (iv) during the period from the onset of the Violation until one month has elapsed since it ended, the Violator (limited to a Financial Services Provider, etc.) effects a Securities the Sales, etc. of Securities Sale, etc. or a Securities Purchase, etc. on the account of a customer of its Financial Instruments Business (including the services of a registered financial institution) or on the account of a rights holder as prescribed in Article 42, paragraph (1) (other than one as set forth in the items of paragraph (5)): the amount specified by Cabinet Office Ordinance as the amount of fees, remuneration, or other type of consideration connected with the Securities Sale, etc. or Securities Purchase, etc.
- (2) The term "Securities Sale, etc." as used in this Article means the sale of Securities, a transaction as set forth in Article 2, paragraph (21), item (ii) (limited to a transaction wherein the Violator is the party to pay the money if the Actual Figure exceeds the Agreed Figure), a transaction as set forth in Article 2, paragraph (21), item (iii) (limited to a transaction wherein the relevant person is the party to grant the Option), or any other transaction specified by Cabinet Order.
- (3) The term "Securities Purchase, etc. " as used this Article means a purchase of Securities, a transaction as set forth in Article 2, paragraph (21), item (ii) (limited to a transaction wherein the relevant person is the party to receive the money if the Actual Figure exceeds the Agreed Figure), a transaction as set forth in Article 2, paragraph (21), item (iii) (limited to a transaction wherein the relevant person is the party to acquire the Option), or any other transaction specified by Cabinet Order.
- (4) The term "Value" as used in paragraph (1) means the amount arrived at when the Securities Sale, etc. price is multiplied by the volume of that sale, etc. or

when the Securities Purchase, etc. price is multiplied by the volume of that purchase, etc.

(5) In the case referred to in paragraph (1), if the Violator effects the Securities Sale, etc. or Securities Purchase, etc. on the account of a person set forth in one of the following items, the Violator is deemed to effect the Securities Sale, etc. or Securities Purchase, etc. on its own account (if the person set forth in the relevant item commits the same Violation as the Violator, this excludes anything that constitutes the same Securities Sale, etc. or Securities Purchase, etc. as one that the person set forth in that item effects on that person's own account), and the provisions of the preceding paragraphs apply:

(i) a company in which the Violator holds the majority of all shareholders', etc. voting rights or any other person specified by Cabinet Office Ordinance as being closely related to the Violator.

(ii) a person that shares living expenses with the Violator or any other person specified by Cabinet Office Ordinance as being uniquely related to the Violator.

(6) For the purposes of calculating the amounts set forth in the items of paragraph (1), if the Violator, at the time the Violation begins, effects a sale of the Securities involved in the Violation, without possessing those Securities, on the Violator's own account or on the account of a person set forth in one of the items of the preceding paragraph (this means a person other than one committing the same Violation; hereinafter the same applies in this paragraph); if the Violator, as of the time the Violation begins, has agreed to effect a transaction set forth in Article 2, paragraph (21), item (ii) (limited to a transaction of the Securities involved in the Violation), wherein the Violator will be the party to pay the money if the Actual Figure exceeds the Agreed Figure, on the Violator's own account or on the account of a person set forth in one of the items of the preceding paragraph; or in any other case specified by Cabinet Order; the Violator, at the time the Violation begins, is deemed to effect a Securities Sales, etc. , at the Price Immediately Preceding the Violation on the Violator's own account.

(7) For the purposes of calculating the amounts set forth in the items of paragraph (1), if the Violator, at the time the Violation begins, owns the Securities involved in the Violation; if the Violator, as of the time the Violation begins, has agreed to effect a transaction set forth in Article 2, paragraph (21), item (ii), wherein the Violator will be the party to receive the money if the Actual Figure exceeds the Agreed Figure (limited to a transaction of the Securities involved in the Violation), on the Violator's own account or on the account of a person set forth in one of the items of paragraph (5) (this means a person other than one committing the same Violation); and in any other case specified by Cabinet Order; the Violator, at the time the Violation begins, is

deemed to effect the Securities Purchase, etc. at the Price Immediately Preceding the Violation on the Violator's own account.

- (8) The amounts set forth in the items of paragraph (1) are calculated for each issue of Securities.
- (9) If a transaction set forth in Article 2, paragraph (21), item (ii) is settled through the payment and receipt of money based on the Actual Figure; if the Options on a transaction set forth in Article 2, paragraph (21), item (iii) extinguish without being exercised; and in any other case specified by Cabinet Order as being similar; the necessary particulars relevant to the calculation of the administrative surcharge referred to in paragraph (1) are specified by Cabinet Order.
- (10) Beyond what is provided for in paragraph (2) to the preceding paragraph inclusive, the necessary particulars relevant to the calculation of the value of the Securities Sales, etc. and the value of the Securities Purchase, etc. provided for in paragraph (1), and necessary particulars otherwise relevant to the calculation of the administrative surcharge referred to in that paragraph are specified by Cabinet Order.

(Issuance of an Administrative Surcharge Payment Order against a Person Effects a Purchase and Sale, etc. of Securities with the Aim of Misleading Others About the Status of Transactions)

Article 174 (1) If a person effects a purchase and sale of Securities, Market Transaction of Derivatives, or Over-the-Counter Derivatives Transaction that is in violation of the provisions of Article 159, paragraph (1), offers to effect such a transaction, or entrusts, etc. a person with effecting such a transaction (such an act is hereinafter referred to as a "Violation" and such a person is hereinafter referred to as a "Violator" in this Article), the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order the Violator to pay an administrative surcharge to the national treasury that is equivalent to the amount specified in the relevant of the following items for the category of cases set forth in that item (or, if the Violation falls under two or more of the cases set forth in the following items, the total of the amounts specified in those items):

- (i) in the period from the onset to the end of the Violation (hereinafter referred to as the "Duration of the Violation" in this Article), the volume of the Securities Sales, etc. that the Violator effects on the Violator's own account for the Securities, etc. (meaning Securities or Options, or Financial Instruments (other than Securities) or Financial Indicators connected with Derivatives Transactions; hereinafter the same applies in this and the following Articles) that are involved in the Violation, exceeds the volume of Securities Purchases, etc. that the Violator effects on the Violator's own

account for the Securities, etc. that are involved in the Violation: the amount arrived at when the amount set forth in sub-item (b) below is deducted from the amount set forth in sub-item (a) below (if the resulting amount is less than zero, it is deemed to be zero):

(a) the Value of the volume of Securities Sales, etc. that is in excess;

(b) the amount arrived at when the lowest Securities Purchase, etc. price for the relevant Securities, etc., from among the lowest prices as prescribed in Article 67-19 or Article 130 on each day in the period from the end of the Violation until one month has elapsed since the Violation has ended (if there is no such lowest price, this means the price specified by Cabinet Office Ordinance as being equivalent to it and the lowest price on the day on which the Violation ends is the amount specified by Cabinet Office Ordinance), is multiplied by the volume that is in excess.

(ii) during the Duration of the Violation, the volume of Securities Purchases, etc. that the Violator effects on the Violator's own account for the Securities, etc. that are involved in the Violation, exceeds the volume of Securities Sales, etc. that the Violator effects on the Violator's own account for the Securities, etc. that are involved in the Violation: the amount arrived at when the amount set forth in sub-item (b) below is deducted from the amount set forth in sub-item (a) below (if the resulting amount is less than zero, it is deemed to be zero):

(a) the amount arrived at when the highest Securities Sale, etc. price for the relevant Securities, etc., from among the highest prices as prescribed in Article 67-19 or Article 130 on each day in the period from the end of the Violation until one month has elapsed since it ended (if there is no such highest price, this means the price specified by Cabinet Office Ordinance as being equivalent to it; the highest price on the day on which the Violation ends is the amount specified by Cabinet Office Ordinance), is multiplied by the volume that is in excess;

(b) the Value of the volume of Securities Purchases, etc. that is in excess.

(iii) in the period from the onset of the Violation until one month has elapsed since it ended, the Violator causes the Securities involved in the Violation which the Violator or a person set forth in the items of paragraph (5) issues, to be acquired through a solicitation with a view to issuing new securities or delivers such Securities in a Reorganization: the amount arrived at when the amount set forth in sub-item (b) below is deducted from the amount set forth in sub-item (a) below (if the resulting amount is less than zero, it is deemed to be zero):

(a) the amount arrived at when the highest Securities Purchase, etc. price for the Securities that the Violator causes to be acquired through the solicitation with a view to issuing new securities or delivers in the

Reorganization, from among the highest prices as prescribed in Article 67-19 or Article 130 on each day in the period from the end of the Violation until one month has elapsed since it ended (if there is no such highest price, this means the price specified by Cabinet Office Ordinance as being equivalent to it and the highest price on the day on which the Violation ends is the amount specified by Cabinet Office Ordinance), is multiplied by the volume of Securities that the Violator causes to be acquired through the solicitation with a view to issuing new securities or delivers in the Reorganization;

- (b) the amount arrived at when the price at the onset of the Violation for the Securities that the Violator causes to be acquired through the solicitation with a view to issuing new securities or delivers in the Reorganization, is multiplied by the volume of Securities that the Violator causes to be acquired through the solicitation with a view to issuing new securities or delivers in the Reorganization.
  - (iv) in the period from the onset of the Violation until one month has elapsed since it ended, the Violator (limited to a Financial Services Provider, etc.) commits a Violation or effects a Securities Sale, etc. or Securities Purchase, etc. on the account of a customer of its Financial Instruments Business (including the services of a registered financial institution) or on the account of a rights holder as prescribed in Article 42, paragraph (1) (other than one as set forth in one of the items of paragraph (5)): the amount specified by Cabinet Office Ordinance as the amount of fees, remuneration, or other type of consideration connected with the Violation, Securities Sales, etc., or Securities Purchase, etc.
- (2) The term "Securities Sale, etc." as used in this Article means the sale of Securities, a transaction as set forth in Article 2, paragraph (21), item (ii) (limited to a transaction wherein the Violator is the party to pay the money if the Actual Figure exceeds the Agreed Figure), a transaction as set forth in Article 2, paragraph (21), item (iii) (limited to a transaction wherein the relevant person is the party to grant the Option), or any other transaction specified by Cabinet Order.
- (3) The term "Securities Purchase, etc." as used this Article means a purchase of Securities, a transaction as set forth in Article 2, paragraph (21), item (ii) (limited to a transaction wherein the Violator is the party to receive the money if the Actual Figure exceeds the Agreed Figure), a transaction as set forth in Article 2, paragraph (21), item (iii) (limited to a transaction wherein the relevant person is the party to acquire the Option), or any other transaction specified by Cabinet Order.
- (4) The term "Value" as used in paragraph (1) means the amount arrived at when the Securities Sale, etc. price is multiplied by the volume of that sale, etc. or

when the Securities Purchase, etc. price is multiplied by the volume of that purchase, etc.

- (5) In the case referred to in paragraph (1), if the Violator effects the Securities Sale, etc. or Securities Purchase, etc. on the account of a person set forth in one of the following items, the Violator is deemed to effect the Securities Sale, etc. or Securities Purchase, etc. on its own account (if the person set forth in the relevant item commits the same Violation as the Violator, this excludes anything that constitutes the same Securities Sale, etc. or Securities Purchase, etc. as one that the person set forth in that item effects on that person's own account), and the provisions of the preceding paragraphs apply:
- (i) a company in which the Violator holds the majority of all shareholders', etc. voting rights or any other person specified by Cabinet Office Ordinance as being closely related to the Violator.
  - (ii) a person that shares living expenses with the Violator, or any other person specified by Cabinet Office Ordinance as being uniquely related to the Violator.
- (6) For the purposes of calculating the amounts set forth in the items of paragraph (1), if the Violator, at the time the Violation begins, owns the Securities involved in the Violation; if the Violator, as of the time the Violation begins, has agreed to effect a transaction set forth in Article 2, paragraph (21), item (ii), wherein the Violator will be the party to pay the money if the Actual Figure exceeds the Agreed Figure (limited to a transaction of the Securities involved in the Violation), on the Violator's own account or on the account of a person set forth in one of the items of paragraph (5) (this means a person other than one committing the same Violation); and in any other case specified by Cabinet Order; the Violator, at the time the Violation begins, is deemed to effect the Securities Purchase, etc. at the Price Immediately Preceding the Violation on the Violator's own account.
- (7) For the purposes of calculating the amounts set forth in the items of paragraph (1), if the Violator, at the time the Violation begins, owns the Securities involved in the Violation; if the Violator, as of the time the Violation begins, has agreed to effect a transaction set forth in Article 2, paragraph (21), item (ii), wherein the Violator will be the party to receive the money if the Actual Figure exceeds the Agreed Figure (limited to a transaction of the Securities involved in the Violation), on the Violator's own account or on the account of a person set forth in one of the items of paragraph (5) (this means a person other than one committing the same Violation); and in any other case specified by Cabinet Order; the Violator, at the time the Violation begins, is deemed to effect the Securities Purchase, etc. at the Price Immediately Preceding the Violation on the Violator's own account.
- (8) The amounts set forth in the items of paragraph (1) is calculated for each

issue of Securities.

- (9) If a transaction set forth in Article 2, paragraph (21), item (ii) is settled through the payment and receipt of money based on the Actual Figure; if the Options on a transaction set forth in Article 2, paragraph (21), item (iii) extinguish without being exercised; and in any other case specified by Cabinet Order as being similar; the necessary particulars relevant to the calculation of the administrative surcharge referred to in paragraph (1) are specified by Cabinet Order.
- (10) Beyond what is provided for in paragraph (2) to the preceding paragraph inclusive, the necessary particulars relevant to the calculation of the value of the Securities Sale, etc. and the value of the Securities Purchase, etc. provided for in paragraph (1), and necessary particulars otherwise relevant to the calculation of the administrative surcharge referred to in that paragraph are specified by Cabinet Order.

(Issuance of an Administrative Surcharge Payment Order against a Person That Effects a Series of Purchase and Sales, etc. of Securities for the Purpose of Inducing Transactions)

Article 174-2 (1) If a person effects a series of Purchase and Sales of Securities, etc. (meaning Purchase and Sales of Securities, etc. as prescribed in Article 159, paragraph (2)) that is in violation of the provisions of Article 159, paragraph (2), item (i), offers to effect such a series of purchase and sales, or entrusts, etc. a person with effecting such a series of purchase and sales (such an act is hereinafter referred to as a "Violation" and such a person is hereinafter referred to as the "Violator" in this Article), the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order the Violator to pay an administrative surcharge to the national treasury that is equivalent to the total of the amounts set forth in each of the following items (referred to as the "Total Amount" in paragraphs (10) and (11)):

- (i) the amount arrived at when the amount set forth in sub-item (b) below is deducted from the amount set forth in sub-item (a) below:
- (a) the Value of the Securities Sales, etc. on the Violator's own account (limited to those connected with the Volume of Corresponding Purchases or Sales that is involved in the relevant Violation);
  - (b) the Value of the Securities Purchases, etc. on the Violator's own account (limited to those connected with the Volume of Corresponding Purchases or Sales that is involved in the relevant Violation).
- (ii) the amount specified in the relevant of the following sub-items (a) to (d) inclusive for the category of cases set forth in that sub-item (or, if the Violation falls under two or more of the cases set forth in the following sub-items (a) to (d) inclusive, the total of the amounts specified in those two or

more sub-items):

- (a) the volume of Securities Sales, etc. on the Violator's own account that are involved in the Violation, exceeds the volume of Securities Purchases, etc. on the Violator's own account that are involved in Violation: the amount arrived at when the amount specified in 2. below is deducted from the amount specified in 1. below (if the resulting amount is less than zero, it is deemed to be zero):
1. the Value of the volume of Securities Sales, etc. that is in excess;
  2. the amount arrived at when the lowest Securities Purchase, etc. price for the Securities, etc. involved in the Violation, from among the lowest prices as prescribed in Article 67-19 or Article 130 on each day in the period from the end of the Violation until one month has elapsed since it ended (if there is no such lowest price, this means the price specified by Cabinet Office Ordinance as being equivalent to it; the lowest price on the day on which the Violation ends is the amount specified by Cabinet Office Ordinance), is multiplied by the volume that is in excess.
- (b) the volume of Securities Purchases, etc. on the Violator's own account that the Violation involves, exceeds the volume of Securities Sales, etc. on the Violator's own account that the Violation involves: the amount arrived at when the amount specified in 2. below is deducted from the amount specified in 1. below (if the resulting amount is less than zero, it is deemed to be zero):
1. the amount arrived at when the highest Securities Sale, etc. price for the Securities, etc. involved in the Violation, from among the highest prices as prescribed in Article 67-19 or Article 130 on each day in the period from the end of the Violation until one month has elapsed since it ended (if there is no such highest price, this means the price specified by Cabinet Office Ordinance as being equivalent to it; the highest price on the day on which the Violation ends is the amount specified by Cabinet Office Ordinance), is multiplied by the volume that is in excess;
  2. the Value of the volume of Securities Purchases, etc. that is in excess.
- (c) during the period from the onset of the Violation until one month has elapsed since it ended, the Violator causes the Securities involved in the Violation that the Violator or a person set forth in the items of paragraph (6) issues, to be acquired through a solicitation with a view to issuing new securities or delivers such Securities in a Reorganization: the amount arrived at when the amount specified in 2. below is deducted from the amount specified in 1. below (if the resulting amount is less than zero, it is deemed to be zero):
1. the amount arrived at when the highest Securities Purchase, etc. price

for the Securities that the Violator causes to be acquired through the solicitation with a view to issuing new securities or delivers in the Reorganization, from among the highest prices as prescribed in Article 67-19 or Article 130 on each day in the period from the end of the Violation until one month has elapsed since it ended (if there is no such highest price, this means the price specified by Cabinet Office Ordinance as being equivalent to it; the highest price on the day on which the Violation ends is the amount specified by Cabinet Office Ordinance), is multiplied by the volume of Securities that the Violator causes to be acquired through the solicitation with a view to issuing new securities or delivers in the Reorganization;

2. the amount arrived at when the price at the onset of the Violation for the Securities that the Violator causes to be acquired through the solicitation with a view to issuing new securities or delivers in the Reorganization, is multiplied by the volume of Securities that the Violator causes to be acquired through the solicitation with a view to issuing new securities or delivers in the Reorganization.

(d) during the period from the onset of the Violation until one month has elapsed since it ended, the Violator (limited to a Financial Services Provider, etc.) commits a Violation or effects a Securities Sales, etc. or Securities Purchase, etc. on the account of a customer of its Financial Instruments Business (including the services of a registered financial institution) or on the account of a rights holder as prescribed in Article 42, paragraph (1) (other than one set forth in the items of paragraph (6)): the amount specified by Cabinet Office Ordinance as the amount of fees, remuneration, or other type of consideration connected with the Violation, Securities Sale, etc., or Purchase, etc. of Securities.

(2) The term "Securities Sale, etc." as used in this Article means the sale of Securities, a transaction as set forth in Article 2, paragraph (21), item (ii) (limited to a transaction wherein the Violator is the party to pay the money if the Actual Figure exceeds the Agreed Figure), a transaction as set forth in Article 2, paragraph (21), item (iii) (limited to a transaction wherein the relevant person is the party to grant the Option), or any other transaction specified by Cabinet Order.

(3) The term "Securities Purchase, etc." as used this Article means a purchase of Securities, a transaction as set forth in Article 2, paragraph (21), item (ii) (limited to a transaction wherein the Violator is the party to receive the money if the Actual Figure exceeds the Agreed Figure), a transaction as set forth in Article 2, paragraph (21), item (iii) (limited to a transaction wherein the relevant person is the party to acquire the Option), or any other transaction specified by Cabinet Order.

- (4) The term "Volume of Corresponding Purchases and Sales" as used in paragraph (1), item (i) means either the volume of Securities Sales, etc. on the Violator's own account that are involved in the Violation, or the volume of Securities Purchases, etc. on the Violator's own account that are involved in the Violation, whichever is smaller.
- (5) The term "Value" as used in paragraph (1) means the amount arrived at when the Securities Sale, etc. price is multiplied by the volume of that sale, etc. or when the Securities Purchase, etc. price is multiplied by the volume of that purchase, etc.
- (6) In the case referred to in paragraph (1), if the Violator commits the Violation or effects the Securities Sale, etc. or Securities Purchase, etc. on the account of a person set forth in one of the following items, the Violator is deemed to commit the Violation or effect the Securities Sale, etc. or Securities Purchase, etc. on the Violator's own account (if the person set forth in the relevant item commits the same Violation as the Violator, this excludes anything that constitutes the same Securities Sale, etc. or Securities Purchase, etc. as one that the person set forth in that item effects on that person's own account), and the provisions of the preceding paragraphs apply:
- (i) a company in which the Violator holds the majority of all shareholders', etc. voting rights, or any other person specified by Cabinet Office Ordinance as being closely related to the Violator;
  - (ii) a person that shares living expenses with the Violator, or any other person specified by Cabinet Office Ordinance as being uniquely related to the Violator.
- (7) For the purposes of calculating the amounts set forth in the items of paragraph (1), if the Violator, at the time the Violation begins, owns the Securities involved in the Violation; if the Violator, as of the time the Violation begins, has agreed to effect a transaction set forth in Article 2, paragraph (21), item (ii), wherein the Violator will be the party to pay the money if the Actual Figure exceeds the Agreed Figure (limited to a transaction of the Securities involved in the Violation), on the Violator's own account or on the account of a person set forth in one of the items of paragraph (5) (this means a person other than one committing the same Violation); or in any other case specified by Cabinet Order; the Violator, at the time the Violation begins, is deemed to effect the Securities Purchase, etc. at the Price Immediately Preceding the Violation, on the Violator's own account.
- (8) For the purposes of calculating the amounts set forth in the items of paragraph (1), if the Violator, at the time the Violation begins, owns the Securities involved in the Violation; if the Violator, as of the time the Violation begins, has agreed to effect a transaction set forth in Article 2, paragraph (21), item (ii), wherein the Violator will be the party to receive the money if the

Actual Figure exceeds the Agreed Figure (limited to a transaction of the Securities involved in the Violation), on the Violator's own account or on the account of a person set forth in one of the items of paragraph (5) (this means a person other than one committing the same Violation); and in any other case specified by Cabinet Order; the Violator, at the time the Violation begins, is deemed to effect the Securities Purchase, etc. at the Price Immediately Preceding the Violation on the Violator's own account.

- (9) The amounts set forth in the items of paragraph (1) are calculated for each issue of Securities.
- (10) If a negative amount arises from the deduction set forth in paragraph (1), item (i) for a single issue, the Total Amount is the amount arrived at when that negative amount is deducted from the amount specified in item (ii) of that paragraph for the same issue.
- (11) If there are two or more issues connected with a Violation and the amount for one of those issues is still negative even after a deduction is made pursuant to the provisions of the preceding paragraph, that negative amount is deducted from the Total Amount for other issues.
- (12) If a transaction set forth in Article 2, paragraph (21), item (ii) is settled through the payment and receipt of money based on the Actual Figure; if the Options on a transaction set forth in Article 2, paragraph (21), item (iii) extinguish without being exercised; and in any other case specified by Cabinet Order as being similar; the necessary particulars relevant to the calculation of the administrative surcharge referred to in paragraph (1) are specified by Cabinet Order.
- (13) Beyond what is provided for in paragraph (2) to the preceding paragraph inclusive, the necessary particulars relevant to the calculation of the value of the Securities Sale, etc. and the value of the Securities Purchase, etc. provided for in paragraph (1), and necessary particulars otherwise relevant to the calculation of the administrative surcharge referred to in that paragraph are specified by Cabinet Order.

(Issuance of an Administrative Surcharge Payment Order against a Person Violating the Prohibition on Stabilizing Transactions)

Article 174-3 (1) If a person effects a series of Purchase and Sales of Securities, etc. (meaning Purchase and Sales of Securities, etc. as prescribed in Article 159, paragraph (2)) that is in violation of the provisions of Article 159, paragraph (3), offers to effect such a series of purchase and sales, or entrusts, etc. a person with effecting such a series of purchase and sales (such an act is hereinafter referred to as a "Violation" and such a person is hereinafter referred to as the "Violator" in this Article), the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order the

Violator to pay an administrative surcharge to the national treasury that is equivalent to the total of the amounts specified in each of the following items (referred to as the "Total Amount" in paragraphs (11) and (12)):

- (i) the amount arrived at when the amount specified in sub-item (b) below is deducted from the amount specified in sub-item (a) below:
  - (a) the Value of the Securities Sales, etc. on the Violator's own account that the Violation involves.
  - (b) the Value of the Securities Purchases, etc. on the Violator's own account that the Violation involves.
- (ii) the amount specified in the relevant of the following sub-items (a) to (d) inclusive, for the category of cases set forth in that sub-item (or, if the Violation falls under two or more of the cases set forth in the following sub-items (a) to (d) inclusive, the total of the amounts specified in those two or more sub-items):
  - (a) at the time the Violation begins, the Violator's Sales Volume, etc. in respect of the listed Financial Instruments, etc. (meaning Listed Financial Instruments, etc. as prescribed in Article 159, paragraph (2), item (i); hereinafter the same applies in this Article) or Over-the-Counter Traded Securities involved in the Violation exceeds the Violator's Purchase Volume, etc. of the same: the amount arrived at when the amount specified in 2. below is deducted from the amount specified in 1. below, and then the difference is multiplied by the volume specified in 3. below (if the resulting amount is less than zero, it is deemed to be zero):
    - 1. the Securities Purchase, etc. price for the listed Financial Instruments, etc. or Over-the-Counter Traded Securities, after the Violation (meaning the average price in the period from the end of the Violation until one month has elapsed since it ended, as calculated pursuant to the provisions of Cabinet Office Ordinance; hereinafter the same applies in this paragraph);
    - 2. the Securities Purchase, etc. price for the listed Financial Instruments, etc. or Over-the-Counter Traded Securities, during the Violation (meaning the average price during the period between when the Violation begins and the when it ends, as calculated pursuant to the provisions of Cabinet Office Ordinance; hereinafter the same applies in this paragraph);
    - 3. the volume that is in excess.
  - (b) at the time the Violation begins, the Violator's Purchase Volume, etc. in respect of the listed Financial Instruments, etc. or Over-the-Counter Traded Securities involved in the Violation exceeds the Violator's Sales Volume, etc. of the same: the amount arrived at when the amount specified in 2. below is deducted from the amount specified in 1. below, and the

difference is multiplied by the volume specified in 3. below (if the resulting amount is less than zero, it is deemed to be zero).

1. the Securities Sale, etc. price for the relevant Listed Financial Instruments, etc. or the Over-the-Counter Traded Securities, during the Violation.
2. the Securities Sale, etc. price for the relevant Listed Financial Instruments, etc. or the Over-the-Counter Traded Securities, after the Violation.
3. the volume that is in excess.

(c) during the period from the onset of the Violation until one month has elapsed since it ended, the Violator causes the Securities involved in the Violation that the Violator or a Person with a Specified Relationship thereto issues, to be acquired through a solicitation with a view to issuing new securities, or delivers such Securities in a Reorganization: the amount arrived at when the amount set forth in 2. below is deducted from the amount set forth in 1. below, and the difference is multiplied by the volume set forth in 3. below (if the resulting amount is less than zero, it is deemed to be zero):

1. the price, during the Violation, of the Securities that the Violator causes to be acquired through the solicitation with a view to issuing new securities or delivers in the Reorganization;
2. the price, after the Violation, of the Securities that the Violator causes to be acquired through the solicitation with a view to issuing new securities or delivers in the Reorganization;
3. the volume of Securities that the Violator causes to be acquired through the solicitation with a view to issuing new securities or delivers in the Reorganization.

(d) during the period from the onset of the Violation until one month has elapsed since it ended, the Violator (limited to a Financial Services Provider, etc.) commits a Violation or effects a Securities Sales, etc. of, or Securities Purchase, etc. on the account of a customer of its Financial Instruments Business (including the services of a registered financial institution) or on the account of a rights holder as prescribed in Article 42, paragraph (1) (other than a Person with a Specified Relationship thereto): the amount specified by Cabinet Office Ordinance as the amount of fees, remuneration, or other type of consideration connected with the Violation, Securities Sale, etc., or Securities Purchase, etc.

(2) The term "Securities Sale, etc." as used in this Article means the sale of Securities, a transaction as set forth in Article 2, paragraph (21), item (ii) (limited to a transaction wherein the Violator is the party to pay the money if the Actual Figure exceeds the Agreed Figure), a transaction as set forth in

Article 2, paragraph (21), item (iii) (limited to a transaction wherein the relevant person is the party to grant the Option), or any other transaction specified by Cabinet Order.

- (3) The term "Securities Purchase, etc." as used this Article means a purchase of Securities, a transaction as set forth in Article 2, paragraph (21), item (ii) (limited to a transaction wherein the Violator is the party to receive the money if the Actual Figure exceeds the Agreed Figure), a transaction as set forth in Article 2, paragraph (21), item (iii) (limited to a transaction wherein the relevant person is the party to acquire the Option), or any other transaction specified by Cabinet Order.
- (4) The term "Value" as used in paragraph (1), item (i) means the amount arrived at when the Securities Sale, etc. price is multiplied by the volume of that sale, etc. or when the Securities Purchase, etc. price is multiplied by the volume of that purchase, etc.
- (5) The term "Sales Volume, etc." as used in this Article means the volume of the Securities involved in transactions if the Violator, on the Violator's own account or on the account of a Person with a Specified Relationship thereto, effects a Securities Sale, etc. or other transaction specified by Cabinet Order without possessing the Securities; and the volume calculated pursuant to the provisions of Cabinet Order as the volume of any transaction as set forth in Article 2, paragraph (21), item (ii) (limited to a transaction wherein the Violator is the party to pay the money if the Actual Figure exceeds the Agreed Figure) or any other transaction specified by Cabinet Order, which the Violator agrees to effect on the Violator's own account or on the account of a Person with a Specified Relationship thereto.
- (6) The term "Purchase Volume, etc." as used in this Article means the volume of the Securities that the Violator or a Person with a Specified Relationship thereto owns or any other Securities specified by Cabinet Order as being equivalent thereto; and the volume calculated pursuant to the provisions of Cabinet Order as the volume of any transaction as set forth in Article 2, paragraph (21), item (ii) (limited to a transaction wherein the Violator is the party to receive the money if the Actual Figure exceeds the Agreed Figure) or any other transaction specified by Cabinet Order, which the Violator agrees to effect on the Violator's own account or on the account of a Person with a Specified Relationship thereto.
- (7) The term "Person with a Specified Relationship" as used in this Article means one of the following persons:
  - (i) a company in which the Violator holds the majority of all shareholders', etc. voting rights or any other person specified by Cabinet Office Ordinance as being closely related to the Violator.
  - (ii) a person that shares living expenses with the Violator, or any other person

specified by Cabinet Office Ordinance as being uniquely related to the Violator.

- (8) If a Person with a Specified Relationship to the Violator commits the same Violation as the Violator and, at the time the Violation begins, the Person with the Specified Relationship to the Violator effects a Securities Sale, etc. or any other transaction specified by Cabinet Order in respect of the listed Financial Instruments, etc. or Over-the-Counter Traded Securities involved in the Violation on its own account, without owning the Securities, the volume of Securities involved in that transaction is to be deducted from the Sales Volume, etc.; and the volume calculated pursuant to the provisions of Cabinet Order as the volume of any transaction as set forth in Article 2, paragraph (21), item (ii) (limited to a transaction wherein the Person with the Specified Relationship to the Violator is the party to pay the money if the Actual Figure exceeds the Agreed Figure) or any other transaction specified by Cabinet Order in respect of the listed Financial Instruments, etc. or Over-the-Counter Traded Securities involved in the Violation, which, as of the time of the Violation, the Person with the Specified Relationship to the Violator has agreed to effect on its own account, is also to be deducted from the Sales Volume, etc.
- (9) If a Person with a Specified Relationship to the Violator commits the same Violation as the Violator, the volume of the Securities that the Person with the Specified Relationship to the Violator owns, and any other Securities specified by Cabinet Order as being equivalent thereto, at the time the Violation begins, in respect of the listed Financial Instruments or Over-the-Counter Traded Securities involved in the Violation, is to be deducted from the Purchase Volume, etc.; and the volume calculated pursuant to the provisions of Cabinet Order as the volume of any transaction as set forth in Article 2, paragraph (21), item (ii) (limited to a transaction wherein the Person with the Specified Relationship to the Violator is the party to receive the money if the Actual Figure exceeds the Agreed Figure) or any other transaction specified by Cabinet Order in respect of the listed Financial Instruments, etc. or Over-the-Counter Traded Securities involved in the Violation, which, as of the time of the Violation, the Person with the Specified Relationship to the Violator has agreed to effect on its own account, is also to be deducted from the Sales Volume, etc.
- (10) The amounts set forth in the items of paragraph (1) are calculated for each issue of Securities.
- (11) If a negative amount arises from the deduction set forth in paragraph (1), item (i) for a single issue, the Total Amount is the amount arrived at when that negative amount is deducted from the amount specified in item (ii) of that paragraph for the same issue.
- (12) If there are two or more issues connected with a Violation and the amount

for one of those issues is still negative even after a deduction is made pursuant to the provisions of the preceding paragraph, that negative amount is deducted from the Total Amount for other issues.

- (13) If a transaction set forth in Article 2, paragraph (21), item (ii) is settled through the payment and receipt of money based on the Actual Figure; if the Options on a transaction set forth in Article 2, paragraph (21), item (iii) extinguish without being exercised; and in any other case specified by Cabinet Order as being similar; the necessary particulars relevant to the calculation of the administrative surcharge referred to in paragraph (1) are specified by Cabinet Order.
- (14) Beyond what is provided for in paragraph (2) to the preceding paragraph inclusive, the necessary particulars relevant to the calculation of the value of the Securities Sale, etc. and the value of the Securities Purchase, etc. provided for in paragraph (1), item (i), and necessary particulars otherwise relevant to the calculation of the administrative surcharge referred to in that paragraph are specified by Cabinet Order.

(Administrative Surcharge Payment Order against a Person That Commits a Violation through an Act That Is Prohibited to Company Insiders)

- Article 175 (1) If a person violates the provisions of Article 166 paragraph (1) or (3) in effecting a Purchase and Sale, etc. prescribed in Article 166 paragraph (1), the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order that person to pay an administrative surcharge to the national treasury that is equivalent to the amount specified in the relevant of the following items for the category of cases set forth in that item (or, if the violation falls under two or more of the cases set forth in the following items, the total of the amounts specified in those two or more items):
- (i) the person violates the provisions of Article 166, paragraph (1) or (3) in effecting a Securities Sale, etc. on its own account (limited to one effected within six months prior to the date on which a material fact about the business that is provided for in Article 166, paragraph (1) is disclosed (this excludes a Securities Sale, etc. on the date of the disclosure, if it is effected after the disclosure is made); hereinafter the same applies in this item): the amount arrived at when the amount specified in sub-item (b) below is deducted from the amount specified in sub-item (a) below:
- (a) the amount arrived at when the price at which the person effected the Securities Sale, etc., is multiplied by the volume of that Securities Sale, etc.;
- (b) the amount arrived at when the Lowest Price in the Two Weeks After the Disclosure of the Material Fact About the Business, etc., is multiplied by the volume of that Securities Sale, etc.

- (ii) the person violates the provisions of Article 166, paragraph (1) or (3) in effecting a Securities Purchase, etc. on its own account (limited to one effected within six months prior to the date on which the Material Fact About the Business, etc. set forth in Article 166, paragraph (1) is disclosed (this excludes a Securities Purchase, etc. on the date of disclosure, if it is effected after the disclosure is made); hereinafter the same applies in this item): the amount arrived at when the amount specified in sub-item (b) below is deducted from the amount specified in sub-item (a) below:
  - (a) the amount arrived at when the Highest Price in the Two Weeks After the Disclosure of the Material Fact About the Business, etc. is multiplied by the volume of that Securities Purchase, etc.
  - (b) the amount arrived at when the price at which the person effected the Securities Purchase, etc., is multiplied by the volume of that Securities Purchase, etc.
- (iii) the person that effects a Sale and Purchase, etc. as prescribed in Article 166, paragraph (1) (limited to a Financial Services Provider, etc.) has effected that Sale and Purchase, etc. on the account of a customer of the Financial Instruments Business that the person conducts (including the services of a registered financial institution) or on the account of a rights holder as prescribed in Article 42, paragraph (1) (other than a person as set forth in the items of paragraph (10)): the amount specified by Cabinet Office Ordinance as the amount of fees, remuneration, or other type of consideration connected with the Sale and Purchase, etc.
- (2) If a person violates the provisions of Article 167, paragraph (1) or (3) in effecting a purchase, etc. involving the Specified Share Certificates, etc. or Related Share Certificates, etc. prescribed in Article 167, paragraph (1) or a sale, etc. involving the Share Certificates, etc. prescribed in that paragraph, the Prime Minister, in accordance with the proceedings prescribed in the following Section, must order that person to pay an administrative surcharge to the national treasury that is equivalent to the amount specified in the relevant of the following items for the category of cases set forth in that item (or, if the violation falls under two or more of the cases set forth in the following items, the total of the amounts specified in those two or more items):
  - (i) the person violates the provisions of Article 167, paragraph (1) or (3) in effecting a Securities Sale, etc. on its own account (limited to one effected within six months prior to the date on which the fact that a Tender Offer, etc. will be launched or of the fact that a Tender Offer, etc. will be suspended as provided in Article 167, paragraph (1) is disclosed (this excludes a Securities Sale, etc. on the date of disclosure, if it is effected after the disclosure is made); hereinafter the same applies in this item): the amount arrived at when the amount specified in sub-item (b) below is deducted from the

amount specified in sub-item (a) below:

- (a) the amount arrived at when the price at which the person effected the the Securities Sale, etc., is multiplied by the volume of that Securities Sale, etc.;
  - (b) the amount arrived at when the Lowest Price in the Two Weeks After the Disclosure of the Fact That the Tender Offer, etc. Will Be Launched or of the Fact That the Tender Offer, etc. Will Be Suspended, in respect of that Securities Sale, etc., is multiplied by the volume of that Securities Sale, etc.
- (ii) the person violates the provisions of Article 167, paragraph (1) or (3) in effecting a Purchase, etc. of Securities on its own account (limited to one effected within six months prior to the date on which the fact that the Tender Offer, etc. will be launched or the fact that a Tender Offer, etc. will be suspended as provided in Article 167, paragraph (1) is disclosed (this excludes a Securities Purchase, etc. on the date of disclosure, if it is effected after the disclosure is made); hereinafter the same applies in this item): the amount arrived at when the amount specified in sub-item (b) below is deducted from the amount specified in sub-item (a) below:
- (a) the amount arrived at when the Highest Price in the Two Weeks After the Disclosure of the Fact That the Tender Offer, etc. Will Be Launched or the Fact That the Tender Offer, etc. Will Be Suspended, in respect of that Securities Purchase, etc., is multiplied by the volume of that Securities Purchase, etc.;
  - (b) the amount arrived at when the price at which the person effected the Securities Purchase, etc., is multiplied by the volume of that Securities Purchase, etc.
- (iii) the person that effects a purchase, etc. of the Specified Share Certificates, etc. or Related Share Certificates, etc. prescribed in Article 167, paragraph (1), or a Sale, etc. of the Share Certificates, etc. prescribed in that paragraph (limited to a Financial Services Provider, etc.), effects that purchase, etc. or sale, etc. on the account of a customer of the Financial Instruments Business that the person conducts (including the services of a registered financial institution) or on the account of a rights holder as prescribed in Article 42, paragraph (1) (other than a person as set forth in the items of paragraph (11)): the amount specified by Cabinet Office Ordinance as the amount of fees, remuneration, or other type of consideration connected with the purchase, etc. or sale, etc.
- (3) The term "Securities Sale, etc." as used in the preceding two paragraphs means the sale of Securities, a transaction as set forth in Article 2, paragraph (21), item (ii) (limited to a transaction wherein the Violator is the party to pay the money if the Actual Figure exceeds the Agreed Figure), a transaction as set forth in Article 2, paragraph (21), item (iii) (limited to a transaction wherein

the relevant person is the party to grant the Option), or any other transaction specified by Cabinet Order.

- (4) The term "Securities Purchase, etc." as used in paragraphs (1) and (2) means a purchase of Securities, a transaction as set forth in Article 2, paragraph (21), item (ii) (limited to a transaction wherein the relevant person is the party to receive the money if the Actual Figure exceeds the Agreed Figure), a transaction as set forth in Article 2, paragraph (21), item (iii) (limited to a transaction wherein the relevant person is the party to acquire the Option), or any other transaction specified by Cabinet Order.
- (5) The term "Lowest Price in the Two Weeks After the Disclosure of the Material Fact About the Business" as used in paragraph (1), item (i), sub-item (b) means the lowest price from among the lowest prices as prescribed in Article 67-19 or Article 130 on each day in the period from the day on which a material fact about business which is provided for in Article 166, paragraph (1) is disclosed until two weeks have elapsed since it was disclosed (if there is no such lowest price, this means the amount specified by Cabinet Office Ordinance as being equivalent to it; the lowest price on the day on which the material fact is disclosed is the amount specified by Cabinet Office Ordinance).
- (6) The term "Highest Price in the Two Weeks After the Disclosure of the Material Fact About the Business" as used in paragraph (1), item (i), sub-item (a) means the highest of the high prices as prescribed in Article 67-19 or Article 130 on each day in the period from the day on which a material fact about business which is provided for in Article 166, paragraph (1) is disclosed until two weeks have elapsed since it was disclosed (if there is no such highest price, this means the amount specified by Cabinet Office Ordinance as being equivalent to it; the highest price on the day on which the material fact is disclosed is the amount specified by Cabinet Office Ordinance).
- (7) The term "Lowest Price in the Two Weeks After the Disclosure of the Fact That the Tender Offer, etc. Will Be Launched or the Fact That the Tender Offer, etc. Will Be Suspended" as used in paragraph (2), item (i), sub-item (b) means the lowest price from among the lowest prices as prescribed in Article 67-19 or Article 130 on each day in the period from the day on which the fact that the Tender Offer, etc. will be launched or of the fact that the Tender Offer, etc. will be suspended as provided in Article 167, paragraph (1) is disclosed until two weeks have elapsed since it was disclosed (if there is no such lowest price, this means the amount specified by Cabinet Office Ordinance as being equivalent to it; the lowest price on the day on which the fact is disclosed is the amount specified by Cabinet Office Ordinance).
- (8) The term "Highest Price in the Two Weeks After the Disclosure of the Fact That the Tender Offer, etc. Will Be Launched or the Fact That the Tender Offer, etc. Will Be Suspended " as used in paragraph (2), item (ii), sub-item (a)

means the highest of the high prices as prescribed in Article 67-19 or Article 130 on each day in the period from the day on which the fact that the Tender Offer, etc. will be launched or the fact that the Tender Offer, etc. will be suspended as provided in Article 167, paragraph (1) is disclosed until two weeks have elapsed since it was disclosed (if there is no such highest price, this means the price specified by Cabinet Office Ordinance as being equivalent to it; the highest price on the day on which the fact is disclosed is the amount specified by Cabinet Office Ordinance).

- (9) The provisions of paragraph (1) (excluding item (iii)) apply mutatis mutandis if the Officer, etc., as prescribed in Article 166, paragraph (1), item (i), of a Listed Company, etc. (meaning a Listed Company, etc. as prescribed in Article 163, paragraph (1), or a Parent Company or Subsidiary Company as set forth in Article 166, paragraph (1), item (i)) violates the provisions of Article 166, paragraph (1) or (3) in effecting a Purchase and Sale, etc. prescribed in Article 166, paragraph (1) on the account of that Listed Company, etc. In this case, in paragraph (1), the term "person" is deemed to be replaced with "Listed Company, etc.", and in items (i) and (ii) of that paragraph, the phrase "on its own account" is deemed to be replaced with "on the account of the Listed Company, etc.".
- (10) In the case referred to in paragraph (1), a person that effects a Purchase and Sale, etc. prescribed in Article 166, paragraph (1) on the account of a person set forth in one of the following items, is deemed to effect that Purchase and Sale, etc. on its own account (with the exclusion of any identical Purchase and Sale, etc. as prescribed in paragraph (1) of that Article, if the person set forth in the relevant item has violated the provisions of paragraph (1) or (3) of that Article in effecting it on its own account), and the provisions of paragraph (1) apply:
- (i) a company in which the person that effects the Purchase and Sale, etc. holds the majority of all shareholders', etc. voting rights, or any other person specified by Cabinet Office Ordinance as being closely related to the person that effects that Purchase and Sale, etc.;
  - (ii) a person that shares living expenses with the person that effects the Purchase and Sale, etc., or any other person specified by Cabinet Office Ordinance as being uniquely related to the person that effects that Purchase and Sale, etc.
- (11) In the case referred to in paragraph (2), a person that effects a purchase, etc. of the Specified Share Certificates, etc. or the Related Share Certificates, etc. prescribed in Article 167, paragraph (1) or a sale, etc. of the Share Certificates, etc. prescribed in that paragraph on the account of a person set forth in one of the following items, is deemed to effect that purchase, etc. or sale, etc. on its own account (with the exclusion of any identical purchase, etc. of Specified Share Certificates, etc. or Related Share Certificates, etc. prescribed in

paragraph (1) of that Article or sale, etc. of Share Certificates, etc. prescribed in that paragraph, if the person set forth in the relevant item has violated the provisions of paragraph (1) or (3) of that Article in effecting it on its own account), and the provisions of paragraph (2) apply:

- (i) a company in which the person that effects the Purchase and Sale, etc. holds the majority of all shareholders', etc. voting rights, or any other person specified by Cabinet Office Ordinance as being closely related to the person that effects the Purchase and Sale, etc.;
  - (ii) a person that shares living expenses with the person that effects the purchase, etc. or sale, etc., or any other person specified by Cabinet Office Ordinance as being uniquely related to the person that effects the Purchase and Sale, etc.
- (12) Beyond what is prescribed in paragraphs (3) to (8) inclusive and the preceding two paragraphs, if the Securities Sale, etc. or Securities Purchase, etc. as provided for in paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (9); hereinafter the same applies in this paragraph) and paragraph (2) constitutes a transaction as set forth in Article 2, paragraph (21), item (ii), the price and volume and necessary particulars otherwise relevant to calculation of the administrative surcharge referred to in paragraph (1) or (2) are specified by Cabinet Order.

(Rounding Off in the Calculation of Administrative Surcharge Amounts)

- Article 176 (1) It is not permitted to order the payment of an administrative surcharge if the amount of the administrative surcharge as calculated pursuant to the provisions of Articles 172 to the preceding Article inclusive is less than ten thousand yen.
- (2) If the amount of an administrative surcharge as calculated pursuant to the provisions of Article 172 to the preceding Article inclusive, includes a number to the right of the ten thousands place, such amount is rounded down to the nearest ten thousand yen.
  - (3) A person that is issued an order under the provisions of Article 172 to the preceding Article inclusive must pay the administrative surcharge under those provisions.
  - (4) If a person prescribed in the paragraphs of Article 172; an Issuer prescribed in Article 172-2, paragraph (1), (4), or (6); an Issuer prescribed in the paragraphs of Article 172-3; an Issuer prescribed in Article 172-4, paragraphs (1) to (3) inclusive; a person prescribed in Article 172-5; a person prescribed in the paragraphs of Article 172-6; a person prescribed in Article 172-7; a person prescribed in Article 172-8; a person prescribed in Article 172-9; an Issuer prescribed in Article 172-10, paragraph (1); an Issuer prescribed in Article 172-11, paragraph (1); a Violator prescribed in Article 173, paragraph (1); a

Violator prescribed in Article 174, paragraph (1); a Violator prescribed in 174-2, paragraph (1); a Violator prescribed in Article 174-3, paragraph (1); a person prescribed in paragraph (1) of the preceding Article or paragraph (2) of that Article; or a Listed Company, etc. prescribed in paragraph (9) of that Article is a corporation, and if that corporation disappears in a merger, the acts performed by the corporation that has disappeared are deemed to be acts performed by the corporation that has survived the merger or by the corporation incorporated in the merger, and the provisions of Article 172 to the preceding Article inclusive and the preceding three paragraphs apply.

(Collection of Reports and On-Site Inspections)

Article 177 The Prime Minister may have the relevant officials reach the following dispositions in order to carry out the necessary investigation into a case connected with an administrative surcharge under Article 173, paragraph (1); Article 174, paragraph (1); Article 174-2, paragraph (1); Article 174-3, paragraph (1); or Article 175, paragraph (1) (including as applied mutatis mutandis pursuant to Article 175, paragraph (9)) or paragraph (2) of that Article:

- (i) questioning a person concerned in the case or a witness, and having them submit opinions or reports; and
- (ii) entering the business office of a person concerned in the case and other necessary sites to inspect the books and documents or any other articles.

## **Section 2 Administrative Hearing Proceedings**

(Decision to Commence Administrative Adjudication Proceedings)

Article 178 (1) If the Prime Minister finds one of the following facts to have occurred, the Prime Minister must issue a decision to commence administrative hearing proceedings for a case that involves that fact:

- (i) a fact that falls under Article 172, paragraph (1) or paragraph (2) (including as applied mutatis mutandis pursuant to paragraph (4) of that Article) or paragraph (3) of that Article;
- (ii) a fact that falls under Article 172-2, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (4) of that Article), paragraph (2) of that Article (including as applied mutatis mutandis pursuant to paragraph (5) of that Article), or paragraph (6) of that Article;
- (iii) a fact that falls under one of the paragraphs of Article 172-3;
- (iv) a fact that falls under Article 172-4, paragraph (1) or paragraph (2) (including as applied mutatis mutandis pursuant to paragraph (3) of that Article);
- (v) a fact that falls under Article 172-5.

- (vi) a fact that falls under Article 172-6, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (2) of that Article);
  - (vii) a fact that falls under Article 172-7;
  - (viii) a fact that falls under Article 172-8;
  - (ix) a fact that falls under Article 172-9;
  - (x) a fact that falls under the paragraphs of Article 172-10;
  - (xi) a fact that falls under Article 172-11, paragraph (1);
  - (xii) a fact that falls under Article 173, paragraph (1);
  - (xiii) a fact that falls under Article 174, paragraph (1);
  - (xiv) a fact that falls under Article 174-2, paragraph (1);
  - (xv) a fact that falls under Article 174-3, paragraph (1); or
  - (xvi) a fact that falls under Article 175, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (9) of that Article) or paragraph (2) of that Article.
- (2) Once the Prime Minister issues a decision to commence administrative hearing proceedings, the Prime Minister may not decide to commence administrative hearing proceedings on the grounds that a fact set forth in the item of the preceding paragraph upon which that decision is based also falls under the category of another of the facts set forth in the items of that paragraph.
- (3) Once five years have elapsed since the opening day of a Public Offering or Secondary Distribution of Securities for which a notification under Article 4, paragraph (1) is required, the opening day of a General Solicitation Involving Securities Acquired by a Qualified Institutional Investor for which a notification under paragraph (2) of that Article is required, or the opening day of a General Solicitation Involving Securities Acquired by a Professional Investor for which a notification under paragraph (3) of that Article is required, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (i) in connection with that Public Offering or Secondary Distribution, General Solicitation Involving Securities Acquired by a Qualified Institutional Investor, or General Solicitation Involving Securities Acquired by a Professional Investor (limited to a fact that falls under Article 172, paragraph (1)).
- (4) Once five years have elapsed since the day on which a person prescribed in Article 15, paragraph (1) violates the provisions of Article 15, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27) in causing the Securities specified in that paragraph to be acquired or selling those Securities through a Public Offering or Secondary Distribution, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (i) in connection with

- the Securities that the person causes to be acquired or sells.
- (5) Once five years have elapsed since the day on which a person prescribed in Article 15, paragraph (2) violates the provisions of Article 15, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27) in selling Securities through a Secondary Distribution without having delivered a Prospectus, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (i) in connection with the Securities that the person sells.
  - (6) Once five years have elapsed since the day on which a person prescribed in Article 23-8, paragraph (1) violates the provisions of Article 23-8, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27) in causing the Securities prescribed in that paragraph to be acquired or selling those Securities through a Public Offering or Secondary Distribution, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (i) in connection with the Securities that the person causes to be acquired or sells.
  - (7) Once five years have elapsed since the day of submission of an Offering Disclosure Document under Article 172-2, paragraph (3) that contains a false statement about a material particular or that omits a statement as to a material particular that is required to be stated, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (ii) in connection with that Offering Disclosure Document.
  - (8) Once five years have elapsed since the opening day of a Secondary Distribution under a Prospectus that contains a false statement about a material particular provided for in Article 172-2, paragraph (4) or omits a statement as to a material particular provided for in that paragraph that is required to be stated, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (ii) in connection with that Prospectus.
  - (9) Once five years have elapsed since the day on which the Issuer causes Securities to be acquired or sells Securities through a Public Offering or Secondary Distribution without having submitted an amended Offering Disclosure Document, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (ii) in connection with the amended Offering Disclosure Document (limited to a fact that falls under Article 172-2, paragraph (6)).
  - (10) Once five years have elapsed since the due date for the submission of an

- Annual Report or Quarterly or Semiannual Report (for the Annual Report prescribed in Article 24, paragraph (3) (including as applied mutatis mutandis pursuant to the provisions of paragraph (5) of that Article and also including as applied mutatis mutandis pursuant to Article 27), from the day on which any grounds for the submission of the Annual Report arises), the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (iii) in connection with that Annual Report or Quarterly or Semiannual Report.
- (11) Once five years have elapsed since the day of submission of an Annual Report, etc., Quarterly Report, Semiannual Report, or Ad Hoc Report, etc. that contains a false statement about a material particular or that omits a statement as to a particular that is required to be stated, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (iv) in connection with that Annual Report, etc., Quarterly Report, Semiannual Report, or Ad Hoc Report, etc.
- (12) Once five years have elapsed since the day on which any ground for the submission of an Ad Hoc Report arises, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (iv) in connection with that Ad Hoc Report (limited to the fact which falls under Article 172-4, paragraph (2), as applied mutatis mutandis pursuant to paragraph (3) of that Article).
- (13) Once five years have elapsed since the day on which a purchase, etc. of Share Certificates, etc. or Listed Share Certificates, etc. violates the provisions of Article 27-3, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)) in being effected without a Public Notice of the Commencement of a Tender Offer having been given, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (iv) in connection with that purchase, etc.
- (14) Once five years have elapsed since the day of issuance of Public Notice of the Commencement of a Tender Offer, etc. which contains a false representation about a material particular or which omits a representation as to a material particular that is required to be represented, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (vi) in connection with that Public Notice for Commencement of Tender Offer, etc.
- (15) Once five years have elapsed since the day of submission of a Tender Offer Statement, etc. that contains a false statement about a material particular or that omits a statement as to a material particular that is required to be stated,

- the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (vi) in connection with that Tender Offer Statement, etc.
- (16) Once five years have elapsed since the due date for the submission of an Amended Tender Offer Statement, etc. (or, for an amended statement under Article 27-8, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)) or an amended report under Article 27-8, paragraph (2) as applied mutatis mutandis pursuant to Article 27-10, paragraph (12), from the day on which any ground for the submission of any of these documents arises), the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (iv) in connection with that Amended Tender Offer Statement, etc. (limited to a fact that falls under Article 172-6, paragraph (1) as applied mutatis mutandis pursuant to paragraph (2) of that Article).
- (17) Once five years have elapsed since the due date for the submission of a Statement of Large-Volume Holdings or Changes, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (iv) involving that Statement of Large-Volume Holdings or Changes.
- (18) Once five years have elapsed since the day on which a person submits a Statement of Large-Volume Holdings or Changes, etc. that contains a false statement about a material particular or that omits a statement as to a material particular that is required to be stated, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (viii) in connection with that Statement of Large-Volume Holdings or Statement of Changes, etc.
- (19) Once five years have elapsed since the day on which a person commences a Specified Solicitation, etc., the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (ix) in connection with that Specified Solicitation, etc.
- (20) Once five years have elapsed since the day on which a person provides or discloses Specified Information on Securities, etc. That Contains a Falsity, etc., the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (x) in connection with that Specified Information on Securities, etc. That Contains a Falsity, etc.
- (21) Once five years have elapsed since the day on which a person provides or discloses Information on the Issuer, etc. That Contains a Falsity, etc., the Prime Minister may not issue a decision to commence administrative hearing

proceedings based on the occurrence of the fact set forth in paragraph (1), item (xi) in connection with that Information on the Issuer, etc. That Contains a Falsity, etc.

- (22) Once five years have elapsed since the day on which the Violation set forth in Article 173, paragraph (1) ends, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (xii) in connection with that Violation.
- (23) Once five years have elapsed since the day on which the Violation prescribed in Article 174, paragraph (1) ends, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (xiii) in connection with that Violation.
- (24) Once five years have elapsed since the day on which the Violation prescribed in Article 174-2, paragraph (1) ends, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (xiv) in connection with that Violation.
- (25) Once five years have elapsed since the day on which an Violation prescribed in Article 174-3, paragraph (1) ends, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (xv) in connection with that Violation.
- (26) Once five years have elapsed since the day on which a Purchase and Sale, etc. prescribed in Article 166, paragraph (1) is effected, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (xvi) in connection with that Purchase and Sale, etc.
- (27) Once five years have elapsed since the day on which a purchase, etc. of Specified Share Certificates, etc. or Related Share Certificates, etc. prescribed in Article 167, paragraph (1) or a sale, etc. of Share Certificates, etc. prescribed in that paragraph is effected, the Prime Minister may not issue a decision to commence administrative hearing proceedings based on the occurrence of the fact set forth in paragraph (1), item (xvi) in connection with that purchase, etc. or sale, etc.

(Written Decision to Commence Administrative Hearing Proceedings)

Article 179 (1) A decision to commence administrative hearing proceedings must be issued in writing.

- (2) A written decision to commence administrative hearing proceedings (hereinafter referred to as the "Written Decision to Commence Administrative Hearing Proceedings" in the following paragraph and Article 183) must contain the dates and places for the administrative hearing proceedings, the fact set

forth in the item of paragraph (1) of the preceding Article which is connected with the administrative surcharge, the amount of the administrative surcharge that would be required to be paid, and the basis for its computation.

- (3) Administrative hearing proceedings are commenced through the service of a certified copy of a Written Decision to Commence Administrative Hearing Proceedings on the person that would be ordered to pay the administrative surcharge (hereinafter referred to as the "Respondent" in this Section).
- (4) A Respondent must be issued an order to appear on the appearance dates for administrative hearing proceedings.

(Administrative Hearing Proceedings)

Article 180 (1) Administrative hearing proceedings (other than the decision to commence administrative hearing proceedings and a decision under Article 185-7, paragraph (17)) are conducted by a panel comprising three hearing examiners; provided, however, that in a simple case, proceedings are conducted by a single hearing examiner.

- (2) For each administrative hearing case, the Prime Minister must designate hearing examiners constituting the panel referred to in the main clause of the preceding paragraph, or the one hearing examiner referred to in the proviso to that paragraph.
- (3) If the Prime Minister decides to have a panel conduct administrative hearing proceedings, the minister must designate one chief examiner, out of the hearing examiners designated pursuant to the provisions of the preceding paragraph.
- (4) The Prime Minister may not designate a person that has participated in the investigation of the case as a hearing examiner.

(Representative of the Respondent)

Article 181 (1) A Respondent may appoint as its representative an attorney-at-law, legal professional corporation, or an appropriate person that has been approved by the Prime Minister.

- (2) The Prime Minister may have the relevant officials designated by the Prime Minister (each of such officials is referred to as a "Designated Official" in the following paragraph) participate in administrative hearing proceedings.
- (3) A Designated Official may attend an administrative adjudication, offer evidence, and perform other necessary acts.

(Opening of Administrative Hearing Proceedings to the Public)

Article 182 Administrative hearing proceedings are open to the public; provided, however, that this does not apply if it is found to be necessary not to do so, in the public interest.

(Written Answer)

Article 183 (1) Upon being served with a certified copy of a Written Decision to Commence Administrative Hearing Proceedings, the Respondent must submit a written answer to this to the hearing examiners without delay.

(2) If a Respondent submits a written answer acknowledging the fact set forth in the item of Article 178, paragraph (1) which relates to the administrative surcharge and acknowledging the amount of the administrative surcharge the Respondent is required to pay before the appearance date for administrative adjudication specified in the Written Decision to Commence Administrative Hearing Proceedings, the appearance date is not required to be set.

(Statement of Opinions)

Article 184 (1) A Respondent may state an opinion when appearing on the date of an administrative hearing.

(2) If a hearing examiner finds it necessary, the hearing examiner may request the Respondent to state an opinion.

(Directing an Examination of a Witness)

Article 185 (1) A hearing examiner may order a witness to appear so as to conduct an examination, at the petition of the Respondent or ex officio. In such a case, the Respondent may also question the witness.

(2) The provisions of Article 190, Article 191, Article 196, Article 197, and Article 201, paragraphs (1) to (4) inclusive of the Code of Civil Procedure (Act No. 109 of 1996) apply mutatis mutandis to the proceedings if an examination is directed to a witness pursuant to the provisions of the preceding paragraph.

(Hearing of the Respondent)

Article 185-2 A hearing examiner may hear the Respondent at the petition of the Respondent or ex officio.

(Production of Documentary Evidence)

Article 185-3 (1) The Respondent may submit documentary evidence or an article of evidence during the course of an administrative adjudication; provided, however, that if hearing examiners designates a reasonable period for the Respondent to submit documentary evidence or an article of evidence, the Respondent must submit it within the designated period.

(2) Hearing examiners may order the person in possession of a document or other article to produce that article and may retain an article so submitted, at the petition of the Respondent or ex officio.

(Issuance of an Order to Present an Expert Opinion to a Person with the

Relevant Knowledge and Experience)

Article 185-4 (1) Hearing examiners may order a person with the relevant knowledge and experience to present an expert opinion, at the petition of the Respondent or ex officio.

(2) If hearing examiners order an expert to appear so as to conduct a hearing, the Respondent may examine that expert.

(3) The provisions of Article 191, Article 197, Article 201, paragraph (1), and Article 212 of the Code of Civil Procedure apply mutatis mutandis to proceedings if an expert is ordered to present an expert opinion, pursuant to paragraph (1).

(On-Site Inspections)

Article 185-5 Hearing examiners may enter the business office of a persons concerned in a case and other necessary sites to inspect the books and documents or any other article, at the petition of the Respondent or ex officio.

(Submission of a Draft Decision)

Article 185-6 After the completion of administrative hearing proceedings, hearing examiners must prepare a draft decision on the administrative hearing case and submit the draft decision to the Prime Minister.

(Decision to Issue an Administrative Surcharge Payment Order)

Article 185-7 (1) If, after the completion of administrative hearing proceedings, the Prime Minister finds a fact set forth in one of the items of Article 178, paragraph (1) to have occurred, unless otherwise provided for in this Article, the Prime Minister must issue a decision against the Respondent, ordering the Respondent to pay the administrative surcharge under the provisions of Article 172, paragraph (1), paragraph (2) (including as applied mutatis mutandis pursuant to paragraph (4) of that Article), or paragraph (3) of that Article; Article 172-2, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (4) of that Article), paragraph (2) of that Article (including as applied mutatis mutandis pursuant to paragraph (5) of that Article), or paragraph (6) of that Article; Article 172-3, paragraph (1) or (2); Article 172-4, paragraph (1) or paragraph (2) (including as applied mutatis mutandis pursuant to paragraph (3) of that Article); Article 172-5; Article 172-6, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (2) of that Article); Articles 172-7 to 172-9 inclusive; Article 172-10, paragraph (1) or (2); Article 172-11, paragraph (1), Article 173, paragraph (1), Article 174, paragraph (1), Article 174-2, paragraph (1); Article 174-3, paragraph (1); or Article 175, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (9) of that Article) or paragraph (2) of that Article to the national

treasury.

- (2) If the Prime Minister is required to issue the decision referred to the preceding paragraph in connection with a fact that falls under Article 172, paragraph (1) and a fact that falls under Article 172, paragraph (2) for the same Public Offering or Secondary Distribution (limited to a decision under Article 178, paragraph (1), item (i)), in lieu of the amount under Article 172, paragraph (1) or (2), the Prime Minister must issue an order for the relevant person to pay an administrative surcharge to the national treasury that is equivalent to the amount arrived at when the amount calculated pursuant to paragraph (1) of that Article is proportionally divided in parallel with the amounts calculated pursuant to paragraph (1) and paragraph (2) of that Article in respect of each fact subject to a decision.
- (3) Once the Prime Minister has issued a decision with regard to a Public Offering or Secondary Distribution that falls under both Article 172, paragraph (1) and paragraph (2) pursuant to the provisions of paragraph (1) (but only if the Prime Minister finds the fact set forth in Article 178, paragraph (1), item (i) to have occurred; hereinafter the same applies in this paragraph), the preceding paragraph, or paragraph (13) (but only if the Prime Minister finds the fact set forth in Article 178, paragraph (1), item (i) to have occurred), the Prime Minister may not issue a new decision with regard to such a Public Offering or Secondary Distribution pursuant to the preceding two paragraphs.
- (4) If the Prime Minister is required to issue the decision referred to in paragraph (1) in connection with the submission of two or more ongoing disclosure documents (meaning an Annual Report or a Quarterly or Semiannual Report; the same applies in the following paragraph) covering the same Business Year Subject to Disclosure (limited to a decision under Article 178, paragraph (1), item (iii)), in lieu of the amount set forth in Article 172-3, paragraph (1) or the amount set forth in Article 172-3, paragraph (2), the Prime Minister must issue an order for the relevant person to pay an administrative surcharge to the national treasury that is equivalent to the amount arrived at when the amount calculated pursuant to paragraph (1) of that Article is proportionally divided in parallel with the amount calculated for each decision (meaning the amount calculated pursuant to Article 172-3, paragraph (1) or (2) in respect of each fact subject to a decision; the same applies in the following paragraph).
- (5) If the Prime Minister is required to issue the decision referred to in paragraph (1) (but only if a fact set forth in Article 178, paragraph (1), item (iii) is found to have occurred; hereinafter the same applies in this paragraph)) or the decision referred to in the preceding paragraph, and is required to issue one or more decisions (hereinafter each is referred to as a "New Decision" in this paragraph) in connection with an ongoing disclosure document for the

same Business Year Subject to Disclosure, as an ongoing disclosure document in connection with which the Prime Minister has already issued one or more decisions pursuant to paragraph (1), the preceding paragraph, this paragraph, or paragraph (13) (but only if the Prime Minister found the fact set forth in Article 178, paragraph (1), item (iii) to have occurred; hereinafter the same applies in this paragraph) (each such decision is hereinafter referred to as a "Prior Decision" in this paragraph), in lieu of the amount set forth in Article 172-3, paragraph (1), Article 172-3, paragraph (2), or the preceding paragraph, the Prime Minister must issue an order in respect of the New Decisions, for the relevant person to pay an administrative surcharge to the national treasury that is equivalent to the amount arrived at when the amount specified in item (ii) is deducted from the amount specified in item (i), and the difference is then proportionally divided in parallel with the amount calculated for each decision in respect of each fact subject to a New Decision, pursuant to the provisions of Cabinet Office Ordinance; provided, however, that unless the amount specified in item (i) exceeds the amount specified in item (ii), the Prime Minister may not issue an administrative surcharge payment order under Article 172-3, paragraph (1) or (2) or the preceding paragraph:

(i) the amount calculated pursuant to Article 172-3, paragraph (1).

(ii) the sum total of the amounts of the administrative surcharges under Article 172-3, paragraph (1) and (2); the preceding paragraph; this paragraph; and paragraph (13) as relates to the Prior Decision.

(6) If the Prime Minister is required to issue the decision referred to in paragraph (1) (limited to a decision under Article 178, paragraph (1), item (iv)) in connection with two or more ongoing disclosure documents, etc. covering the same Business Year Subject to Disclosure (meaning an Annual Report, etc. or Quarterly Report, Semiannual Report, Ad Hoc Report, etc., but excluding an amended report to amend a false statement contained in any of those documents or to correct a deficiency in respect of a material particular that is required to be stated as prescribed in Article 7, Article 9, paragraph (1), or Article 10, paragraph (1) as applied mutatis mutandis pursuant to Article 24-2, paragraph (1), Article 24-4-7, paragraph (4), and Article 24-5, paragraph (5) (including as applied mutatis mutandis pursuant to Article 27); the same applies in the following paragraph), and the sum total of the amounts calculated pursuant to Article 172-4, paragraph (1) and (2) (including as applied mutatis mutandis pursuant to paragraph (3) of that Article) in respect of each fact subject to a decision (hereinafter referred to as the "Amount Calculated for Each Decision" in this paragraph, the following paragraph, and paragraph (14) (but only if the Prime Minister finds the fact set forth in Article 178, paragraph (1), item (iv) to have occurred)) exceeds the higher of the amounts set forth in either of the following items, in lieu of the amount

provided for in Article 172-4, paragraph (1) or Article 172-4, paragraph (2) (including as applied mutatis mutandis pursuant to paragraph (3) of that Article), the Prime Minister must issue an order for the relevant person to pay an administrative surcharge to the national treasury that is equivalent to the amount arrived at when the higher of those amounts is proportionally divided in parallel with the Amount Calculated for Each Decision, pursuant to the provisions of Cabinet Office Ordinance:

(i) the highest of the amounts calculated pursuant to Article 172-4, paragraph (1) for the fact that has occurred in respect of the decision, for each Annual Report, etc.;

(ii) the highest of the amounts arrived at when the amount calculated pursuant to Article 172-4, paragraph (2) (including as applied mutatis mutandis pursuant to paragraph (3) of that Article) for the fact that has occurred in respect of the decision is multiplied by two, for each Quarterly Report, Semiannual Report, or Ad Hoc Report, etc.

(7) If the Prime Minister is required to issue the decision referred to in paragraph (1) (but only if the Prime Minister finds the fact set forth in Article 178, paragraph (1), item (iv) to have occurred; hereinafter the same applies in this paragraph)) or the decision referred to in the preceding paragraph, and is required to issue one or more decisions (hereinafter each is referred to as a "New Decision" in this paragraph) in connection with an ongoing disclosure document, etc. for the same Business Year Subject to Disclosure, as an ongoing disclosure document, etc. in connection with which the Prime Minister has already issued one or more decisions pursuant to paragraph (1), the preceding paragraph, this paragraph, paragraph (12) (but only if the Prime Minister found the fact set forth in Article 178, paragraph (1), item (iv) to have occurred; hereinafter the same applies in this paragraph), paragraph (13) (but only if the Prime Minister found the fact set forth in Article 178, paragraph (1), item (iv) to have occurred; hereinafter the same applies in this paragraph), or paragraph (14) (but only if the Prime Minister found the fact set forth in Article 178, paragraph (1), item (iv) to have occurred; hereinafter the same applies in this paragraph) (each such a decision is hereinafter referred to as a "Prior Decision" in this paragraph), in lieu of the amount set forth in Article 172-4, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to paragraph (3) of that Article) or the preceding paragraph, the Prime Minister must issue an order in respect of the New Decisions, for the relevant person to pay an administrative surcharge to the national treasury that is equivalent to the amount arrived at when the amount specified in item (ii) is deducted from the amount specified in item (i), and the difference is then proportionally divided in parallel with the Amount Calculated for Each Decision in respect of each fact subject to a New Decision, pursuant to the provisions of Cabinet

Office Ordinance; provided, however, that unless the amount specified in item (i) exceeds the amount specified in item (ii), the Prime Minister may not issue an administrative surcharge payment order under paragraph (1) or (2) of that Article (including as applied mutatis mutandis pursuant to paragraph (3) of that Article) or the preceding paragraph:

(i) the sum total of the Amounts Calculated for Each Decision, in respect of each fact subject to a Prior Decision and to a New Decision (if this amount exceeds the higher of the amounts set forth in the following sub-item (a) or (b), this means the higher of those amounts):

(a) the highest of the amounts calculated pursuant to Article 172-4, paragraph (1) in respect of each fact subject to a Prior Decision and to a New Decision for each Annual Report, etc.; or

(b) the highest of the amounts arrived at when the amounts calculated pursuant to Article 172-4, paragraph (2) (including as applied mutatis mutandis pursuant to paragraph (3) of that Article) in respect of each fact subject to a Prior Decision and to a New Decision for each Quarterly Report, Semiannual Report, Ad Hoc Report, etc., are multiplied by two.

(ii) the sum total of the amounts of administrative surcharges under Article 172-4, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to paragraph (3) of that Article), the preceding paragraph, this paragraph, and paragraphs (12) to (14) inclusive, in connection with Prior Decisions.

(8) If the Prime Minister is required to issue the decision referred to in paragraph (1) in connection with two or more Tender Offer documents, etc. (meaning a Public Notice of the Commencement of the Tender Offer, etc. or a Tender Offer Statement; the same applies in the following paragraph) for the same Tender Offer (limited to a decision under Article 178, paragraph (1), item (vi)), in lieu of the amount set forth in Article 172-6, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (2) of that Article), the Prime Minister must issue an order for the relevant person to pay an administrative surcharge to the national treasury that is equivalent to the amount arrived at when the amount calculated pursuant to paragraph (1) of that Article is divided proportionally in parallel with the amounts calculated pursuant to that paragraph (including as applied mutatis mutandis pursuant to paragraph (2) of that Article) in respect of each fact subject to a decision.

(9) If the Prime Minister has already issued a decision pursuant to paragraph (1) (but only if the Prime Minister found the fact set forth in Article 178, paragraph (1), item (vi) to have occurred; hereinafter the same applies in this paragraph), the preceding paragraph, or paragraph (13) (but only if the Prime Minister found the fact set forth in Article 178, paragraph (1), item (vi) to have occurred) in connection with a Tender Offer document, etc., the Prime Minister may not issue a new decision pursuant to paragraph (1) or the preceding

paragraph in connection with a Tender Offer document, etc. linked to the same Tender Offer as that Tender Offer document, etc.

(10) If the Prime Minister is required to issue the decision referred to in paragraph (1) (limited to a decision under Article 178, paragraph (1), item (xi)) in connection with two or more pieces of Information on the Issuer, etc. for the same Business Year Subject to Disclosure (excluding Amended Information on the Issuer that amends false information contained in the relevant Information on the Issuer, etc. or that corrects a deficiency of information about a material particular that is required to be provided or disclosed; the same applies in the following paragraph), in lieu of the amount under Article 172-11, paragraph (1), the Prime Minister must issue an order for the relevant person to pay an administrative surcharge to the national treasury that is equivalent to the amount arrived at when the highest of the amounts calculated pursuant to that paragraph in respect of each fact subject to a decision (hereinafter referred to as the "Amount Calculated for Each Decision" in this paragraph, the following paragraph and paragraph (14) (but only if the Prime Minister finds the fact set forth in Article 178, paragraph (1), item (xi) to have occurred)) is proportionally divided in parallel with the Amount Calculated for Each Decision, pursuant to the provisions of Cabinet Office Ordinance.

(11) If the Prime Minister is required to issue the decision referred to in paragraph (1) (but only if the Prime Minister finds the fact set forth in Article 178, paragraph (1), item (xi) to have occurred; hereinafter the same applies in this paragraph)) or the preceding paragraph, and must issue one or more decisions (hereinafter each is referred to as a "New Decision" in this paragraph) in connection with Information on the Issuer, etc. for the same Business Year Subject to Disclosure as Information on the Issuer, etc. in connection with which the Prime Minister has already issued one or more decisions pursuant to paragraph (1), the preceding paragraph, this paragraph, the following paragraph (but only if the Prime Minister found the fact set forth in Article 178, paragraph (1), item (xi) to have occurred; hereinafter the same applies in this paragraph), paragraph (13) (but only if the Prime Minister found the fact set forth in that Article 178, paragraph (1), item (xi) to have occurred; hereinafter the same applies in this paragraph), or paragraph (14) (but only if the Prime Minister found the fact set forth in Article 178, paragraph (1), item (xi) to have occurred; hereinafter the same applies in this paragraph) (each such a decision is hereinafter referred to as a "Prior Decision" in this paragraph), in lieu of the amount set forth in Article 172-11, paragraph (1) or the preceding paragraph, the Prime Minister must issue an order in connection with the New Decisions, for the relevant person to pay an administrative surcharge to the national treasury that is equivalent to the amount arrived at when the amount specified in item (ii) is deducted from the

amount specified in item (i) and the difference is then divided proportionally in parallel with the Amount Calculated for Each Decision in respect of each fact subject to a New Decision, pursuant to the provisions of Cabinet Office Ordinance; provided, however, that unless the amount specified in item (i) exceeds the amount specified in item (ii), the Prime Minister may not issue an administrative surcharge payment order under Article 172-11, paragraph (1) or the preceding paragraph:

(i) the highest of the Amounts Calculated for Each Decision in respect of each fact subject to a Prior Decision or to a New Decision.

(ii) the sum total of the amounts of administrative surcharges under Article 172-11, paragraph (1), the preceding paragraph, this paragraph, and paragraphs (12) to (14) inclusive in connection with Prior Decisions.

(12) If the Prime Minister is required to issue the decision referred to in paragraph (1) (but only if the Prime Minister finds a fact set forth in Article 178, paragraph (1), item (ii) to have occurred that comes under the purview of Article 172-2, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (4) of that Article; hereinafter the same applies in this paragraph); finds a fact set forth in Article 178, paragraph (1), item (iv) to have occurred that comes under the purview of Article 172-4, paragraph (1) or (2); finds a fact set forth in Article 178, paragraph (1), item (vii) or a fact set forth in Article 178, paragraph (1), item (x) to have occurred that comes under the purview of Article 172-10, paragraph (1); or finds a fact set forth in Article 178, paragraph (1), item (xi) or a fact set forth in Article 178, paragraph (1), item (xvi) to have occurred that comes under the purview of Article 175, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (9) of that Article); hereinafter the same applies in this paragraph), paragraph (6), paragraph (7), or the preceding two paragraphs (if the Prime Minister finds a fact set forth in the relevant item to have occurred that comes under the purview of paragraph (1) of the relevant Article (including as applied mutatis mutandis pursuant to paragraph (9) of that Article), this is only if the Purchase and Sale, etc. under Article 166, paragraph (1) involving that fact falls under the category of an acquisition, by a Listed Company, etc. as prescribed in Article 175, paragraph (9), of its own shares, pursuant to the provisions of Article 156, paragraph (1) of the Companies Act (including as it applies through the replacement of certain terms pursuant to the provisions of Article 163 and Article 165, paragraph (3) of that Act) or a foreign law or regulation that is equivalent to those provisions, or in any other case specified by Cabinet Office Ordinance as being equivalent to this), and the person set forth in Column 1 of the following table, prior to the disposition set forth in Column 3 of that table being issued with regard to a fact falling under the provisions set forth in Column 2 of that table, reports that fact to the Prime

Minister pursuant to the provisions of Cabinet Office Ordinance, in lieu of the amounts set forth in Column 4 of that table, the Prime Minister must issue an order for the relevant person to pay an administrative surcharge to the national treasury that is equivalent to the amount arrived at when the relevant amount is multiplied by 50 percent.

Column 1	Column 2	Column 3	Column 4
An Issuer set forth in Article 172-2, paragraph (1)	Article 172-2, paragraph (1)	order for the submission of reports or materials, or inspection of books and documents or other articles, as set forth in Article 26 (including the cases where it is applied mutatis mutandis pursuant to Article 27)	The amount set forth in Article 172-2, paragraph (1) (in cases where the Prime Minister is required to issue a decision under paragraph (1) with regard to the submission of two or more Disclosure Documents for Offerings (meaning the Disclosure Documents for Offerings set forth in paragraph (3) of that Article; hereinafter the same shall apply in this paragraph) or with regard to a Secondary Distribution related to two or more Prospectuses, limited to the amount pertaining to the most recently submitted Disclosure Documents for Offerings or the amount pertaining to the most recently commenced Secondary Distribution related to the Prospectuses.)
An Issuer set forth in Article 172-4, paragraph (1) or (2)	Article 172-4, paragraph (1) or (2)	order for the submission of reports or materials, or the inspection of books and documents or other articles, as set forth in Article 26 (including the cases where it is applied mutatis mutandis pursuant to Article 27)	The amount set forth in Article 172-4, paragraph (1) or (2), or Article 185-7, paragraph (6) or (7) (in cases where the Prime Minister is required to issue a decision under Article 185-7, paragraph (1), (6) or (7) with regard to the submission of two or more Annual Securities Reports or Quarterly Securities Reports, Semiannual Securities Reports or Extraordinary Reports, etc., limited to the amount pertaining to the most recently submitted Annual Securities Reports or Quarterly Securities Reports, Semiannual Securities Reports or Extraordinary Reports, etc.)

A person set forth in Article 172-7	Article 172-7	order for the submission of reports or materials, or the inspection of books and documents or other articles, as set forth in Article 27-30, paragraph (1)	The amount set forth in Article 172-7 (in cases where the Prime Minister is required to issue a decision under paragraph (1) with regard to two or more Reports of Possession of Large Volume or Change Reports, limited to the amount pertaining to the Report of Possession of Large Volume or Change Report for which time limit for submission comes latest).
An Issuer set forth in Article 172-10, paragraph (1)	Article 172-10, paragraph (1)	order for the submission of reports or materials, or the inspection of books and documents or other articles, as set forth in Article 27-35	The amount set forth in Article 172-10, paragraph (1) (in the cases where the Prime Minister is required to issue a decision under paragraph (1) with regard to the provision or publication of two or more pieces of Specified Information on Securities, etc., limited to the amount pertaining to the latest provision or publication.)
An Issuer set forth in Article 172-11, paragraph (1)	Article 172-11, paragraph (1)	order for the submission of reports or materials, or the inspection of books and documents or other articles, as set forth in Article 27-35	The amount set forth in Article 172-11, paragraph (1) or the preceding two paragraphs (in the cases where the Prime Minister is required to issue a decision under paragraph (1) or the preceding two paragraphs with regard to the provision or publication of two or more pieces of Issuer's Information, etc., limited to the amount pertaining to the latest provision or publication.)
A person set forth in Article 175, paragraph (1) or Listed Companies, etc. set forth in Article 175, paragraph (9)	Article 175, paragraph (1) (including the cases where it is applied mutatis mutandis pursuant to paragraph (9) of that Article)	any of the dispositions listed in the items of Article 177	The amount set forth in Article 175, paragraph (1) (including the cases where it is applied mutatis mutandis pursuant to paragraph (9) of that Article) (in the cases where the Prime Minister is required to issue a decision under paragraph (1) with regard to two or more occasions of Sales and Purchases, etc. set forth in Article 166, paragraph (1), limited to the amount pertaining to the latest Sales and Purchase, etc.)

(13) If the Prime Minister is required to issue the decision referred to in paragraph (1), paragraph (2), paragraphs (4) to (8) inclusive, or the preceding three paragraphs, and the person subject to the decision that is set forth in the left column of the following table, in the five years prior to the date set forth in the middle column of that table, was subject to an administrative surcharge payment order as provided in Article 185-15, paragraph (1) (if, in connection with such an administrative surcharge payment order, the legal action referred to in Article 185-18, paragraph (1) has been filed, this is only if the judicial decision on the legal action has become final and binding) or to a decision as provided in paragraph (16) (limited to a decision to which paragraph (3), the proviso to paragraph (5), the proviso to paragraph (7), paragraph (9), the proviso to paragraph (11), the proviso to the following paragraph, or the proviso to paragraph (15) is applicable), in lieu of the amount set forth in the provisions specified in the right-hand column of that table, the Prime Minister must issue an order for the relevant person to pay an administrative surcharge to the national treasury that is equivalent to 150 percent of that amount.

A person set forth in Article 172, paragraph (1)	the day when any of the following was commenced: the Public Offering or Secondary Distribution of Securities for which a notification under Article 4, paragraph (1) is required, a General Offering of Securities Acquired by a Qualified Institutional Investors for which a notification under Article 4, paragraph (2) is required, or a General Offering of Securities Acquired by a Professional Investors, etc. for which a notification under Article 4, paragraph (3) is required.	Article 172, paragraph (1) or Article 185-7, paragraph (2)
An Issuer set forth in Article 172, paragraph (2) or a person set forth in that paragraph	the day when, in violation of the provisions of Article 15, paragraph (1) (including the cases where it is applied mutatis mutandis pursuant to Article 27), the Securities under that paragraph were acquired or sold through the Public Offering, or through the Secondary Distribution under Article 172, paragraph (2).	Article 172, paragraph (2) or Article 185-7, paragraph (2)

A person set forth in Article 172, paragraph (3)	the day when, in violation of the provisions of Article 15, paragraph (2) (including the cases where it is applied mutatis mutandis pursuant to Article 27), the Securities were sold through the Secondary Distribution under Article 172, paragraph (3) without a Prospectus having been delivered.	Article 172, paragraph (3)
An Issuer set forth in Article 172, paragraph (4) or a person set forth in that paragraph	the day when, in violation of the provisions of Article 23-8, paragraph (1) (including the cases where it is applied mutatis mutandis pursuant to Article 27), the Securities under that paragraph were acquired or sold through the Public Offering, or through the Secondary Distribution under Article 172, paragraph (2).	Article 172, paragraph (2) as applied mutatis mutandis pursuant to Article 172, paragraph (4)
An Issuer set forth in Article 172-2, paragraph (1) or its Officers, etc. set forth in paragraph (2) of that Article	the day when the Disclosure Documents for an Offering under Article 172-2, paragraph (3) that contain any false statement on important matters or lack a statement on any important matters that should be stated therein was submitted.	Article 172-2, paragraph (1) or (2), or the preceding paragraph (limited to the cases where the fact specified in Article 178, paragraph (1), item (ii) which falls under Article 172-2, paragraph (1) has been found).
An Issuer set forth in Article 172-2, paragraph (4) or its Officers, etc. set forth in paragraph (2) of that Article	the day when the Secondary Distribution under Article 172, paragraph (3) pertaining to the Prospectus which contains any false statement on important matters set forth in Article 172-2, paragraph (4) or lacks a statement on important matters that should be stated therein as set forth in that paragraph was commenced.	Article 172-2, paragraph (1) as applied mutatis mutandis pursuant to Article 172-2, paragraph (4), Article 172-2, paragraph (2) as applied mutatis mutandis pursuant to Article 172-2, paragraph (5), or the preceding paragraph (limited to the cases where any fact specified in Article 178, paragraph (1), item (ii) which falls under Article 172-2, paragraph (1) as applied mutatis mutandis pursuant to Article 172-2, paragraph (4) has been found).

An Issuer set forth in Article 172-2, paragraph (6)	the day when the Securities were acquired or sold through the Public Offering, or through the Secondary Distribution under Article 172, paragraph (2), without the Amended Offering Disclosure Documents for the Offering having been submitted.	Article 172-2, paragraph (6)
An Issuer set forth in the paragraphs of Article 172-3	the time limit for the submission of each Annual Securities Report or Quarterly or Semiannual Securities Report (with regard to the Annual Securities Report under Article 24, paragraph (3) (including the cases where it is applied mutatis mutandis pursuant to paragraph (5) of that Article, and also including the cases where these provisions are applied mutatis mutandis pursuant to Article 27), the day when the ground for the submission of such Annual Securities Report has arisen)	Article 172-3, paragraph (1) or (2), or Article 185-7, paragraph (4) or (5)
An Issuer set forth in Article 172-4, paragraph (1) or (2)	the day when each of the Annual Securities Reports, etc., or Quarterly Securities Reports, Semiannual Securities Reports or Extraordinary Reports, etc. that contains any false statement on important matters or lacks a statement on important matters that should be stated therein was submitted.	Article 172-4, paragraph (1) or (2), or Article 185-7, paragraph (6), (7) or the preceding paragraph (limited to the cases where any fact specified in Article 178, paragraph (1), item (iv) has been found)
An Issuer set forth in Article 172-4, paragraph (3)	the day on which the grounds for the submission of the Extraordinary Report has arisen.	Article 172-4, paragraph (2) as applied mutatis mutandis pursuant to Article 172-4, paragraph (3), or Article 185-7, paragraph (6) or (7)

A person set forth in Article 172-5	the day when, in violation of the provisions of Article 27-3, paragraph (1) (including the cases where it is applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)), the Purchase, etc. under Article 27-2, paragraph (1) or Article 27-22-2, paragraph (1) with regard to the Share Certificates, etc. or the Listed Share Certificates, etc. set forth in Article 27-2, paragraph (1) was made, without a Public Notice for Commencing Tender Offer having been made	Article 172-5
A person set forth in Article 172-6, paragraph (1)	the day when the Public Notice for Commencing Tender Offer, etc. containing any false indication on important matters or lacking an indication on important matters was made, or the day when the Tender Offer Notification, etc. containing any false statement on important matters or lacking a statement on important matters that should be contained therein was submitted.	Article 172-6, paragraph (1) or Article 185-7, paragraph (8)
A person set forth in Article 172-6, paragraph (2)	the time limit for the submission of the Amended Notice of a Tender Offer, etc. (with regard to the amendment under Article 27-8, paragraph (2) (including the cases where it is applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)) or the Amendment Report under Article 27-8, paragraph (2) as applied mutatis mutandis pursuant to Article 27-10, paragraph (12), the day when the ground for the submission of any of these documents has arisen)	Article 172-6, paragraph (1) as applied mutatis mutandis pursuant to Article 172-6, paragraph (2), or Article 185-7, paragraph (8)
A person set forth in Article 172-7	the time limit for the submission of Reports of Large Holdings or Alteration Reports	Article 172-7 or the preceding paragraph (limited to the case where any fact specified in Article 178, paragraph (1), item (vii) has been found)

A person set forth in Article 172-8	the day when a Report of Large Holdings or an Alteration Report, etc. containing any false statement on important matters or lacking important matters that should be contained therein was submitted	Article 172-8
A person set forth in Article 172-9	the day when the Specified Solicitation or Offer, etc. was commenced	Article 172-9
An Issuer set forth in Article 172-10, paragraph (1) or its Officers, etc. set forth in Article 172-2, paragraph (2)	the day when the Information on Securities, etc. Containing False Information, etc. was provided or publicized	Article 172-10, paragraph (1) or (2), or the preceding paragraph (limited to the cases where any fact specified in Article 178, paragraph (1), item (x) has been found)
An Issuer set forth in Article 172-11, paragraph (1)	the day when the Information on the Issuer, etc. That Contains a Falsity was provided or publicized	Article 172-11, paragraph (1), Article 185-7, paragraph (10) or (11) or the preceding paragraph (limited to the cases where any fact specified in Article 178, paragraph (1), item (xi) has been found)
A Violator set forth in Article 173, paragraph (1)	the day when the Act of Violation set forth in Article 173, paragraph (1) was commenced	Article 173, paragraph (1)
A Violator set forth in Article 174, paragraph (1)	the day when the Act of Violation set forth in Article 174, paragraph (1) was commenced	Article 174, paragraph (1)
A Violator set forth in Article 174-2, paragraph (1)	the day when the Act of Violation set forth in Article 174-2, paragraph (1) was commenced	Article 174-2, paragraph (1)

A Violator set forth in Article 174-3, paragraph (1)	the day when the Act of Violation set forth in Article 174-3, paragraph (1) was commenced	Article 174-3, paragraph (1)
A person set forth in Article 175, paragraph (1), a person set forth in Article 175, paragraph (2) or the Listed Companies, etc. set forth in Article 175, paragraph (9)	the day when the Purchase and Sale, etc. under Article 166, paragraph (1) was conducted, or the day when the Purchase, etc. of the Regulated Share Certificates, etc. or Related Share Certificates, etc. under Article 167, paragraph (1), or the Sales, etc. of the Share Certificates, etc. set forth in that paragraph was conducted	Article 175, paragraph (1) (including the cases where it is applied mutatis mutandis pursuant to paragraph (9) of that Article) or paragraph (2) of that Article, or the preceding paragraph (limited to the case where any fact specified in Article 178, paragraph (1), item (xvi) has been found)

(14) If the Prime Minister is required to issue one or more decisions pursuant to paragraph (1) (but only if the Prime Minister finds the fact set forth in Article 178, paragraph (1), item (iv) or (xi) to have occurred), paragraph (6), paragraph (7), paragraph (10), paragraph (11), or the preceding two paragraphs (but only if the Prime Minister finds the fact set forth in Article 178, paragraph (1), item (iv) or (xi) to have occurred; hereinafter the same applies in this paragraph), and a final and binding judicial decision for the same case imposes a fine on the Respondent, in lieu of the amount specified in Article 172-4, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to paragraph (3) of that Article; hereinafter the same applies in this paragraph), Article 172-11 (1), or Article 185-7, paragraph (6), (7), or (10) to (13) inclusive, the Prime Minister must issue an order for the relevant person to pay an administrative surcharge to the national treasury that is equivalent to the amount arrived at when the amount specified in item (ii) is deducted from the amount specified in item (i), and the difference is then proportionally divided in parallel with the Amount Calculated for Each Decision in respect of the facts subject to those one or more decisions, pursuant to the provisions of Cabinet Office Ordinance; provided, however, that unless the amount specified in item (i) exceeds the amount specified in item (ii), the Prime Minister may not issue an administrative

surcharge payment order under Article 172-4, paragraph (1) or (2), Article 172-11, paragraph (1), or Article 185-7, paragraph (6), (7), or (10) to (13) inclusive:

(i) the sum total of the amounts calculated pursuant to the provisions of Article 172-4, paragraph (1) and (2), Article 172-11, paragraph (1), and Article 185-7, paragraph (6), (7), and (10) to (13) inclusive, in respect of the facts subject to those one or more decisions;

(ii) the amount of the fine.

(15) In the case referred to in paragraph (1) (but only if the Prime Minister finds a fact set forth in Article 178, paragraph (1), item (xii) to (xvi) inclusive to have occurred), paragraph (12) of that Article (but only if the Prime Minister finds a fact set forth in Article 178, paragraph (1), item (xii) to (xvi) inclusive to have occurred; hereinafter the same applies in this paragraph), or in paragraph (13) of that Article (but only if the Prime Minister finds a fact set forth in Article 178, paragraph (1), items (xii) to (xvi) inclusive to have occurred; hereinafter the same applies in this paragraph), if the final and binding judicial decision in the same case imposes on the Respondent a confiscation of the properties set forth in the items of Article 198-2, paragraph (1) or the collection of the value of the properties set forth in the items of Article 198-2, paragraph (1), in lieu of the amount set forth in Article 173, paragraph (1), Article 174, paragraph (1), Article 174-2, paragraph (1), Article 174-3, paragraph (1), or Article 175, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (9) of that Article) or paragraph (2) of that Article, or Article 185-7, paragraph (12) or (13), the Prime Minister must issue an order for the relevant person to pay an administrative surcharge to the national treasury in the amount of the difference after the amount equivalent to the properties set forth in the items of Article 198-2, paragraph (1) whose confiscation is ordered in that judicial decision, or the amount equivalent to the value of the properties set forth in the items of Article 198-2, paragraph (1) whose collection is ordered in that judicial decision (or, if both the confiscation of the properties set forth in the items of Article 198-2, paragraph (1) and the collection of the value of the properties set forth in the items of Article 198-2, paragraph (1) are ordered in that judicial decision, this means the sum total of the amount equivalent to the properties set forth in the items of Article 198-2, paragraph (1) whose confiscation is ordered in that judicial decision and the amount equivalent to the values of the properties set forth in the items of Article 198-2, paragraph (1) whose collection is ordered in that judicial decision; hereinafter referred to as the "Amount Equivalent to Confiscated Properties, etc." in this paragraph), is deducted from the relevant of those amounts; provided, however, that unless the amount set forth in Article 173, paragraph (1), Article 174, paragraph (1), Article 174-2, paragraph (1), Article 174-3, paragraph (1), Article 175, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph

(9) of that Article) or paragraph (2) of that Article, or Article 185-7, paragraph (12) or (13) exceeds the Amount Equivalent to Confiscated Properties, etc., the Prime Minister may not issue an administrative surcharge payment order under those provisions.

(16) If, after the conclusion of administrative hearing proceedings, the Prime Minister finds no fact to have occurred that falls under an item of Article 178, paragraph (1), or in a case to which paragraph (3), the proviso to paragraph (5), the proviso to paragraph (7), paragraph (9), the proviso to paragraph (11), the proviso to paragraph (14), or the proviso to the preceding paragraph is applicable, the Prime Minister must issue a decision that gives a clear indication of this.

(17) A decision as referred to in paragraph (1), (2), (4) to (8) inclusive, or (10) to (16) inclusive must be issued in writing based on the draft decision submitted by an hearing examiner pursuant to the provisions of the preceding Article.

(18) The written decision in respect of a decision provided for in the preceding paragraph must state the facts found by the Prime Minister and the application of laws and regulations to those facts (including the basis for the computation of the administrative surcharge and the due date for its payment, in the case of a decision under paragraph (1), (2), (4) to (8) inclusive, or (10) to (15) inclusive).

(19) The due date for payment as referred to in the preceding paragraph is the day on which two months have elapsed since the date on which a certified copy of the written decision provided for in that paragraph (limited to one for a decision under paragraph (1), (2), (4) to (8) inclusive, or (10) to (15) inclusive) is issued.

(20) A decision as provided for in paragraph (17) comes into effect through the service of a certified copy of the pertinent written decision on the Respondent.

(21) Notwithstanding the provisions of the preceding paragraph, if, at the time of the decision referred to in paragraph (1) (limited to a decision connected with Article 178, paragraph (1), item (iv) or (xi)) or a decision as referred to in paragraph (6), paragraph (7), paragraph (10), paragraph (11), paragraph (12) (but only if the Prime Minister finds a fact set forth in Article 178, paragraph (1), item (iv) or (xi) to have occurred), or paragraph (13) (but only if the Prime Minister finds a fact set forth in Article 178, paragraph (1), item (iv) or (xi) to have occurred), prosecution has been instituted for the same case and that case is still pending before the court, the decision comes into effect once the judicial decision in that case becomes final and binding; provided, however, that if the final and binding judicial decision in that case imposes a fine on the person subject to the decision, the decision comes into effect once a certified copy of a document concerning a modifying disposition under the provisions of paragraph (6) of the following Article is served.

- (22) Notwithstanding the provisions of paragraph (20), if, at the time of the decision referred to in paragraph (1) (limited to a decision connected with one of Article 178, paragraph (1), items (xii) to (xvi) inclusive), paragraph (12) (but only if the Prime Minister finds a fact set forth in one of Article 178, paragraph (1), items (xii) to (xvi) to have occurred) and paragraph (13) (but only if the Prime Minister finds a fact set forth in one of Article 178, paragraph (1), items (xii) to (xvi) inclusive to have occurred), prosecution has been instituted for the same case and that case is still pending before the court, the decision comes into effect once the judicial decision in that case becomes final and binding; provided, however, that if the final and binding judicial decision in that case imposes the confiscation of the properties set forth in the items of Article 198-2, paragraph (1) or the collection of the value of the properties set forth in the items of Article 198-2, paragraph (1) against the person subject to the decision, the decision comes into effect once a certified copy of a document concerning a modifying disposition under paragraph (7) of the following Article is served.
- (23) The provisions of the main clause of paragraph (21) and the main clause of the preceding paragraph do not apply if a certified copy of the written decision in respect of the decision referred to in paragraph (1), (6), (7), or (10) to (13) inclusive is not served as of the time the judicial decision in the same case becomes final and binding.
- (24) The provisions of the proviso to paragraph (21) do not apply if a certified copy of the written decision in respect of the decision referred to in paragraph (1) (limited to a decision connected with Article 178, paragraph (1), item (iv) or (xi)), paragraph (6), paragraph (7), paragraph (10), paragraph (11), paragraph (12) (but only if the Prime Minister finds a fact set forth in Article 178, paragraph (1), item (iv) or (xi) to have occurred) or paragraph (13) (but only if the Prime Minister finds a fact set forth in Article 178, paragraph (1), item (iv) or (xi) to have occurred) is not served as of the time that a certified copy of a document concerning a modifying disposition under paragraph (6) of the following Article is served.
- (25) The provisions of the proviso to paragraph (22) do not apply if a certified copy of the written decision in respect of the decision referred to in paragraph (1) (limited to a decision connected with Article 178, paragraph (1), items (xii) to (xvi) inclusive), paragraph (12) (but only if the Prime Minister finds a fact set forth in one of Article 178, paragraph (1), items (xii) to (xvi) inclusive to have occurred), or paragraph (13) (but only if the Prime Minister finds a fact set forth in one of Article 178, paragraph (1), items (xii) to (xvi) inclusive to have occurred) is not served as of the time that a certified copy of a document concerning a modifying disposition under paragraph (7) of the following Article is served.
- (26) Notwithstanding the provisions of paragraph (19), in the case referred to in

the main clause of paragraph (21) or the main clause of paragraph (22), the due date for the payment of an administrative surcharge is the day on which two months have elapsed since the day on which the judicial decision in the case becomes final and binding.

(27) Notwithstanding the provisions of paragraph (19), in the case referred to in the proviso to paragraph (21) or the proviso to paragraph (22), the due date for the payment of an administrative surcharge is the day on which two months have elapsed since the day on which a certified copy of a document concerning a modifying disposition under the provisions of paragraph (6) or (7) of the following Article is dispatched.

(28) If the amount of an administrative surcharge as calculated pursuant to the provisions of paragraphs (2), (4), to (8) inclusive, and (10) to (14) inclusive, includes a number to the right of the ones place, such amount is rounded down to the nearest one yen.

(29) The term "Business Year Subject to Disclosure" as used in paragraphs (4) to (7) inclusive, and paragraphs (10) and (11) means the business year specified in the relevant of the following items for the category of documents or information set forth in that item:

(i) an Annual Report or accompanying document under Article 24, paragraph (1) or (3) (including as applied *mutatis mutandis* pursuant to paragraph (5) of that Article, and also including as applied *mutatis mutandis* pursuant to Article 27) or Article 24, paragraph (6) (including as applied *mutatis mutandis* pursuant to Article 27), as well as under Article 7, Article 9, paragraph (1), or Article 10, paragraph (1) as applied *mutatis mutandis* pursuant to Article 24-2, paragraph (1) (including as applied *mutatis mutandis* pursuant to Article 27), or any amended report in connection with the same: the business year of the Annual Report or accompanying document;

(ii) a Quarterly Report under Article 24-4-7, paragraph (1) or (2) (including as applied *mutatis mutandis* pursuant to paragraph (3) of that Article, and also as applied *mutatis mutandis* pursuant to Article 27), as well as under Article 7, Article 9, paragraph (1), or Article 10, paragraph (1) as applied *mutatis mutandis* pursuant to Article 24-4-7, paragraph (4) (including as applied *mutatis mutandis* pursuant to Article 27) or any amended report in connection with the same: the business year that includes the period to which that Quarterly Report pertains;

(iii) a Semiannual Report under Article 24-5, paragraph (1) (including as applied *mutatis mutandis* pursuant to paragraph (3) of that Article, and also including as applied *mutatis mutandis* pursuant to Article 27), as well as under Article 7, Article 9, paragraph (1), or Article 10, paragraph (1) as applied *mutatis mutandis* pursuant to Article 24-5, paragraph (5) (including

- as applied mutatis mutandis pursuant to Article 27) or any amended report in connection with the same: the business year that includes the period to which that Semiannual Report pertains; and
- (iv) an Ad Hoc Report under Article 24-5, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27), as well as under Article 7, Article 9, paragraph (1), or Article 10, paragraph (1) as applied mutatis mutandis pursuant to Article 24-5, paragraph (5) (including as applied mutatis mutandis pursuant to Article 27) or any amended report in connection with the same: the business year that includes the day on which the Ad Hoc Report was submitted; and
  - (v) the Information on the Issuer or any amended Information on the Issuer in connection with the same: the business year for the relevant Information on the Issuer.

(Suspension of the Validity of a Decision)

- Article 185-8 (1) If, after the decision referred to in paragraph (1) of the preceding Article (limited to a decision connected with Article 178, paragraph (1), item (iv), or (xi) to (xvi) inclusive; hereinafter the same applies in paragraphs (4), (5), (8), and (11)) or the decision referred to in Article 185-7, paragraph (6), (7), (10), (11), or (12) (but only if the Prime Minister finds a fact set forth in Article 178, paragraph (1), item (iv), (xi), or (xvi) to have occurred; the same applies in paragraphs (4), (5), (8), and (11) of this Article), or Article 185-7, paragraph (13) (but only if the Prime Minister finds a fact set forth in Article 178, paragraph (1), item (iv), or one of items (xi) to (xvi) inclusive to have occurred; the same applies in paragraphs (4), (5), (8), and (11) of this Article) is reached and before the due date for payment in connection with that decision, prosecution is instituted against the person subject to that decision in connection with the same case, the Prime Minister must suspend the validity of the decision until the judicial decision in the same case becomes final and binding; provided, however, that this does not apply if the administrative surcharge under that decision has already been paid in full.
- (2) If the validity of the decision referred to in paragraph (1) of the preceding paragraph (limited to a decision connected with Article 178, paragraph (1), item (iv) or (xi); hereinafter the same applies in paragraph (6)) or the validity of the decision referred to in Article 185-7, paragraph (6), (7), (10), (11), or (12) (but only if the Prime Minister finds a fact set forth in Article 178, paragraph (1), item (iv) or (xi) to have occurred; the same applies in paragraph (6) of this Article), or Article 185-7, paragraph (13) (but only if the Prime Minister finds a fact set forth in Article 178, paragraph (1), item (iv) or (xi) to have occurred; the same applies in paragraph (6) of this Article) is suspended pursuant to the main clause of the preceding paragraph, and the final and binding judicial

- decision in the case imposes a fine on the person subject to that decision, the Prime Minister must suspend the validity of the decision until a certified copy of a document concerning a modifying disposition under paragraph (6) is served.
- (3) If the validity of the decision referred to in Article 185-7, paragraph (1) (limited to a decision connected with one of Article 178, paragraph (1), items (xii) to (xvi) inclusive; the same applies in paragraph (7) of this Article), Article 185-7, paragraph (12) (but only if the Prime Minister finds a fact set forth in one of Article 178, paragraph (1), items (xii) to (xvi) inclusive to have occurred; the same applies paragraph (7) of this Article), or Article 185-7, paragraph (13) (but only if the Prime Minister finds a fact set forth in one of Article 178, paragraph (1), items (xii) to (xvi) inclusive to have occurred; the same applies in paragraph (7) of this Article) is suspended pursuant to the main clause of paragraph (1), and the final and binding judicial decision in the case imposes a confiscation of the properties set forth in the items of Article 198-2, paragraph (1) or the collection of the value of the properties set forth in the items of Article 198-2, paragraph (1) against the person subject to the decision, the Prime Minister must suspend the validity of the decision until a certified copy of a document concerning a modifying disposition under paragraph (7) is served.
- (4) Notwithstanding the provisions of paragraph (19) of the preceding Article, if the validity of the decision referred to in paragraph (1), (6), (7), or (10) to (13) inclusive of that Article is suspended pursuant to the provisions of paragraph (1), the due date for the administrative surcharge payment is the day on which two months have elapsed since the day that the judicial decision in the case becomes final and binding.
- (5) Notwithstanding the provisions of paragraph (19) of the preceding Article and the preceding paragraph, if the validity of the decision referred to in paragraph (1), (6), (7), or (10) to (13) inclusive of that Article is suspended pursuant to the provisions of paragraph (2) or (3) of this Article, the due date for the administrative surcharge payment is the day on which two months have elapsed since the day that a certified copy of a document concerning a modifying disposition under the following paragraph or paragraph (7) is dispatched.
- (6) After the issuance of the decision referred to in paragraph (1) of the preceding Article or the decision referred to in paragraph (6), (7), or (10) to (13) inclusive of that Article, if a final and binding judicial decision in the same case imposes a fine on the person subject to the decision, the Prime Minister must modify the amount of the administrative surcharge subject to the decision, from the amount under those provisions to the amount equivalent to what is arrived at when the amount set forth in item (ii) is deducted from the amount set forth in item (i), and the difference is divided proportionally in parallel to the amount of the administrative surcharge subject to the decision, pursuant to the

provisions of Cabinet Office Ordinance; provided however, that this does not apply unless the amount set forth in item (i) exceeds the amount set forth in item (ii):

(i) the sum total of the administrative surcharge subject to the relevant decisions;

(ii) the amount of the fine.

(7) After the decision referred to in paragraph (1), (12), or (13) of the preceding Article, if the final and binding judicial decision in the same case imposes a confiscation of the properties set forth in the items of Article 198-2, paragraph (1) or the collection of the value of the properties set forth in the items of Article 198-2, paragraph (1) against the person subject to the decision, the Prime Minister must modify the amount of the administrative surcharge subject to the decision referred to in paragraph (1), (12), or (13) of the preceding Article, to the amount arrived at when the amount set forth in item (ii) is deducted from the amount set forth in item (i); provided, however, this does not apply unless the amount set forth in item (i) exceeds the amount set forth in item (ii):

(i) the amount specified in the provisions of Article 173, paragraph (1), Article 174, paragraph (1), Article 174-2, paragraph (1), Article 174-3, paragraph (1), Article 175, paragraph (1) (including as applied *mutatis mutandis* pursuant to paragraph (9) of that Article) or paragraph (2) of that Article, or Article 185-7, paragraph (12) or (13);

(ii) the amount equivalent to the properties set forth in the items of Article 198-2, paragraph (1) whose confiscation is ordered in the judicial decision, or the amount equivalent to the values of the properties set forth in the items of Article 198-2, paragraph (1) whose collection is ordered in the judicial decision (if both the confiscation of the properties set forth in the items of Article 198-2, paragraph (1) and the collection of the value of the properties set forth in the items of Article 198-2, paragraph (1) are ordered in the judicial decision, this means the sum total of the amount equivalent to the properties set forth in the items of Article 198-2, paragraph (1) whose confiscation is ordered in the judicial decision and the amount equivalent to the values of the properties set forth in the items of Article 198-2, paragraph (1) whose collection is ordered in the judicial decision).

(8) In a case as referred to in the proviso to paragraph (6) or the proviso to the preceding paragraph, the Prime Minister must rescind the decision referred to in paragraph (1), (6), (7), or (10) to (13) inclusive of the preceding Article.

(9) A modifying disposition under paragraph (6) or (7) must be made in writing.

(10) A modifying disposition under paragraph (6) or (7) comes into effect through the service of a certified copy of a document concerning that disposition.

(11) Prescription of a claim involving an administrative surcharge does not run

while the validity of a decision referred to in paragraph (1), (6), (7), or (10) to (13) inclusive of the preceding Article is suspended pursuant to the provisions of paragraphs (1) to (3) inclusive.

(12) If the amount of an administrative surcharge as calculated pursuant to the provisions of paragraph (6), includes a number to the right of the ones place, such amount is rounded down to the nearest one yen.

(Documents to Be Served)

Article 185-9 The documents that are required to be served other than those prescribed in this section are specified by Cabinet Office Ordinance.

(Mutatis Mutandis Application of Code of Civil Procedure)

Article 185-10 The provisions of Article 99 and Articles 101 to 109 inclusive of the Code of Civil Procedure apply mutatis mutandis to the service of documents. In this case, in Article 99, paragraph (1) in that Code, the term "a court execution officer" is deemed to be replaced with "an official of the Financial Services Agency"; in Article 104, paragraph (1) of that Code, the phrase "party, statutory agent, or litigation representative" is deemed to be replaced with "respondent or representative" and the term "court in charge" is deemed to be replaced with "Prime Minister or a hearing examiner"; in Article 107, paragraph (1) of that Code, the term "the court clerk" is deemed to be replaced with "an official of the Financial Services Agency"; in item (iii) of that paragraph, the term "case record" [soshō kiroku] is deemed to be replaced with "case record"; in Article 108 of that Code, the term "presiding judge" is deemed to be replaced with "Prime Minister or the chief hearing examiner (or the hearing examiner, if the proviso to Article 180, paragraph (1) of the Financial Instruments and Exchange Act applies)"; and in Article 109 of that Code, the term "the court" is deemed to be replaced with "the Prime Minister or an hearing examiner".

(Service by Publication)

Article 185-11 (1) The Prime Minister or an hearing examiner may effect service by publication in the following cases:

- (i) the domicile or residence of the person to be served, or the place where to serve is unknown;
- (ii) it is not possible to effect service pursuant the provisions of Article 107, paragraph (1) of the Code of Civil Procedure as applied mutatis mutandis pursuant to the preceding Article;
- (iii) with regard to service that must be effected in a foreign country, it is impossible to effect service through the means prescribed in Article 108 of the Code of Civil Procedure as applied mutatis mutandis pursuant to the

preceding Article, or it is found to be impossible to effect service even through such means; or

- (iv) even after six months have elapsed since the competent government agency of a foreign country is issued a request to effect service pursuant to the provisions of Article 108 of the Code of Civil Procedure as applied *mutatis mutandis* pursuant to the preceding Article, no document certifying that the agency has effected service is sent.
- (2) Service by publication is effected by a posting being made on the notice board of the Financial Services Agency indicating that the documents that are required to be served will be delivered to the person that is to be served with them at any time.
- (3) Service by publication takes effect after the lapse of two weeks from the date on which the posting under the provisions of the preceding paragraph begins.
- (4) For service by publication in respect of service that must be effected in a foreign country, the period referred to in the preceding paragraph is six weeks.

(Use of an Electronic Data Processing System for Disposition Notices, etc.)

Article 185-12 (1) Notwithstanding the provisions of Article 4, paragraph (1) of the Act on the Utilization of Information and Communications Technology in Administrative Proceedings, a disposition notice, etc. as prescribed in Article 2, item (vii) of that Act, which is to be given by the relevant person being served with a document pursuant to the provisions of this Section or Cabinet Office Ordinance, may not be given using an electronic data processing system unless the recipient of the disposition notice, etc. indicates, in the form specified by Cabinet Office Ordinance, that the recipient will be so served.

- (2) Whenever an official of the Financial Services Agency uses an electronic data processing system to do administrative work involving a disposition notice, etc. as prescribed in the preceding paragraph, the official must use that electronic data processing system to record the particulars of the service under the provisions of Article 109 of the Code of Civil Procedure as applied *mutatis mutandis* pursuant to Article 185-10, in a file that is stored on a computer (this includes on an input or output device) used by the Financial Services Agency instead of preparing and submitting a document that states those particulars.

(Inspection of the Case Record)

Article 185-13 After a decision to commence administrative hearing proceedings is issued, an interested party may file a request with the Prime Minister to inspect or copy the case records, or to be issued a certified copy of the written decision in respect of a decision prescribed in Article 185-7, paragraph (17), or an extract of the same. In such a case, the Prime Minister may not refuse the request, unless the inspection or issuance would be detrimental to the interests

of a third party or unless there are any other legitimate grounds for refusal.

(Demand for Payment)

Article 185-14 (1) If a person fails to pay an administrative surcharge by the due date for its payment, the Prime Minister, through a written demand, must demand payment of the administrative surcharge by the due date designated by the Prime Minister in the written demand.

(2) If the Prime Minister makes the demand for payment under the provisions of the preceding paragraph, the Prime Minister may collect a delinquency charge at a rate of 14.5 percent per annum accrued on the amount of the administrative surcharge referred to in that paragraph, calculated based on the number of days from the day after the due date for payment to the day on which the administrative surcharge is paid; provided, however, that this does not apply if the delinquency charge amounts to less than one thousand yen.

(3) If the amount of a delinquency charge as calculated pursuant to the provisions of the preceding paragraph, includes a number to the right of the one hundreds place, such amount is rounded down to the nearest hundred yen.

(Execution of an Administrative Surcharge Payment Order)

Article 185-15 (1) If a person that is issued a demand pursuant to paragraph (1) of the preceding Article fails to pay the amount that person is required to pay by the designated due date, a decision under Article 185-7, paragraph (1), (2), (4), to (8) or (10) to (15) (including a decision following a modification under Article 185-8, paragraph (6) or (7); hereinafter referred to as an "Administrative Surcharge Payment Order" in this and the following Articles) is executed by order of the Prime Minister. This order has the same effect as that of an enforceable title of obligation.

(2) An Administrative Surcharge Payment Order is executed in accordance with the provisions of the Civil Execution Act (Act No. 4 of 1979) and other laws and regulations on compulsory execution procedures.

(3) If the Prime Minister finds it to be necessary for the execution of an Administrative Surcharge Payment Order, the Prime Minister may inquire with public offices or public and private organizations, and request these parties to report the necessary particulars.

(Claim to an Administrative Surcharge)

Article 185-16 With regard to the application of the provisions of the Bankruptcy Act, the Civil Rehabilitation Act (Act No. 225 of 1999), the Corporate Reorganization Act (Act No. 154 of 2002), and the Act on Special Treatment of Corporate Reorganization Proceedings and Other Insolvency Proceedings of Financial Institutions, a claim to an administrative surcharge under an

Administrative Surcharge Payment Order or a claim to delinquency charges under Article 185-14, paragraph (2) is deemed to be a claim to a non-criminal fine.

(Delegation to Cabinet Office Ordinance)

Article 185-17 Beyond what is provided for in this Section, necessary particulars relevant to administrative hearing proceedings are specified by Cabinet Office Ordinance.

### **Section 3 Litigation**

Article 185-18 (1) An action to rescind a decision under Article 185-7, paragraph (1), (2), (4) to (8) inclusive, or (10) to (15) inclusive must be filed within 30 days from the day on which the decision becomes valid.

(2) The period set forth in the preceding paragraph is a peremptory term.

### **Section 4 Miscellaneous Provisions**

(Witness' Claim for Travel Expenses)

Article 185-19 A witness or expert that is ordered to appear or to present an expert opinion pursuant to the provisions of Article 185, paragraph (1) or Article 185-4, paragraph (1) may claim travel expenses and an allowance, pursuant to the provisions of Cabinet Order.

(Exclusion from Application of the Administrative Procedure Act)

Article 185-20 The provisions of Chapter II and Chapter III of the Administrative Procedure Act do not apply to a decision or other disposition that the Prime Minister reaches pursuant to the provisions of Section 1 or Section 2 (including a disposition that an hearing examiner reaches pursuant to the provisions of those Sections).

(Appeals)

Article 185-21 An appeal under the Administrative Appeal Act may not be entered against a decision or other disposition that the Prime Minister reaches pursuant to the provisions of Section 1 or Section 2 (including a disposition that an hearing examiner reaches pursuant to the provisions of those Sections).

## **Chapter VII Miscellaneous Provisions**

(Procedure in Hearings)

Article 186 (1) If the Prime Minister or the Prime Minister and the Minister of

Finance seek to have the relevant officials conduct a hearing pursuant to the provisions of this Act, but the person subject to the hearing fails to comply and is without just cause for doing so, the Prime Minister or the Prime Minister and the Minister of Finance may issue the disposition prescribed in the relevant provisions without having the hearing conducted.

- (2) Whenever the Prime Minister or the Prime Minister and the Minister of Finance issue a notice to a person to which they seek to have the relevant officials direct a hearing, the Prime Minister or the Prime Minister and the Minister of Finance must expressly indicate the subject matter and date of the hearing in that notice.
- (3) Hearings are open to the public; provided, however, that this does not apply if the person subject to the hearing requests that the hearing be closed to the public (but only if there are found to be reasonable grounds for closing the hearing to the public), or if this is found to be necessary in the public interest.
- (4) Whenever the Prime Minister or the Prime Minister and the Minister of Finance have the relevant officials conduct a hearing pursuant to the provisions of this Act, the Prime Minister or the Prime Minister and the Minister of Finance must create a record of this and retain it in their archives for 10 years.

(Hearings Open to the Public)

Article 186-2 Hearings involving a disposition under the provisions of this Act are open to the public; provided, however, that this does not apply if the person subject to the hearing requests that the hearing be closed to the public (but only if there are found to be reasonable grounds for closing the hearing to the public), or if this is found to be necessary in the public interest.

(Dispositions for Investigations Involving Inquiries)

Article 187 The Prime Minister or the Prime Minister and the Minister of Finance may have the relevant officials reach the following dispositions for the purpose of conducting the investigations necessary for a hearing under the provisions of this Act, a hearing involving a disposition under the provisions of this Act, or a petition under the provisions of Article 192:

- (i) ordering a person concerned or a witness to appear in order to hear that person's opinion, or having such a person submit a written opinion or a written report;
- (ii) ordering an expert to appear so as to have the expert present an expert opinion;
- (iii) ordering a person concerned to submit books and documents or any other articles, or retaining submitted articles; and
- (iv) inspecting the state of the business or assets, or the books and documents

or any other articles, of a person concerned.

(Obligation to Prepare, Archive, and Report Documents Related to the Business of a Financial Services Provider, etc.)

Article 188 In addition to as otherwise prescribed in this Act, a Financial Services Provider, etc., Designated Parent Company, Financial Instruments Intermediary, Credit Rating Agency, Authorized Financial Instruments Business Association, Certified Financial Instruments Business Association under Article 78, paragraph (2), Investor Protection Fund, Financial Instruments Exchange or its Member, etc., a self-regulatory organization under Article 85, paragraph (1), Financial Instruments Exchange Holding Company, Foreign Financial Instruments Exchange or the Participant of a Foreign Financial Instruments Exchange, a Financial Instruments Clearing Organization or its Clearing Member, a Foreign Financial Instruments Clearing Organization or its Clearing Member, a Securities Finance Company, Designated Dispute Resolution Organization provided for in Article 156-38, paragraph (1), or trade repository must prepare and archive the books, statements, correspondences, vouchers, and other documents concerning its business, or submit report on its business, pursuant to the provisions of Cabinet Office Ordinance (or, with regard to an Investor Protection Fund, pursuant to Cabinet Office Ordinance and Ordinance of the Ministry of Finance).

(Providing Investigatory Cooperation to a Foreign Regulatory Authority for Financial Instruments)

Article 189 (1) If the Prime Minister receives a request for cooperation from the foreign authority that is responsible for the enforcement of a foreign law or regulation that is equivalent to this Act (hereinafter referred to as a "Foreign Regulatory Authority for Financial Instruments" in this Article) concerning an administrative investigation it conducts in order to enforce the laws and regulations under its jurisdiction, and the Prime Minister finds it to be appropriate to accommodate the request, the Prime Minister may order a person conducting a purchase and sale or other transaction of Securities or a Derivatives Transaction with a person residing in the foreign state, or any other concerned party or witness, to submit reports or materials that should serve as a reference, to the extent that is necessary and appropriate for accommodating the request.

(2) The Prime Minister may not reach the disposition referred to in the preceding paragraph in a case that falls under one of the following items:

(i) the Foreign Regulatory Authority for Financial Instruments has not given its assurance that the authority will accommodate similar requests from

- Japan;
- (ii) it is found that if such a disposition is reached based on the request by the Foreign Regulatory Authority for Financial Instruments, it is likely to have an adverse material impact on the capital market or to otherwise be detrimental to Japan's national interests; or
  - (iii) there is found to be a risk of the report or materials submitted pursuant to the disposition under the preceding paragraph being used at the Foreign Regulatory Authority for Financial Instruments other than for a purpose that contributes to the discharge of its function.
- (3) If the request for cooperation referred to in paragraph (1) is made for the purpose of an administrative disposition (limited to one that would restrict any right of the person subject to the disposition or that which would impose a duty on such a person) by the Foreign Regulatory Authority for Financial Instruments based on a foreign law or regulation that is equivalent to this Act, the Prime Minister is to consult with the Minister of Foreign Affairs before accommodating the request.
- (4) Appropriate measures must be taken in respect of a report or materials submitted pursuant to a disposition under paragraph (1), to ensure that they will not be used for criminal proceedings conducted by a court or a judge in a foreign state.
- (5) Necessary particulars relevant to the application of the provisions of the preceding paragraphs are specified by Cabinet Order.

(Carrying of Identification Cards by Inspection Officials)

Article 190 (1) An hearing examiner or official that conducts inspection pursuant to the provisions of Article 26 (including as applied mutatis mutandis pursuant to Article 27); Article 27-22, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)) or paragraph (2) of that Article; Article 27-30, paragraph (1); Article 27-35; Article 56-2, paragraph (1) (including as applied mutatis mutandis pursuant to Article 65-3, paragraph (3)); Article 56-2, paragraphs (2) to (4) inclusive; Article 57-10, paragraph (1); Article 57-23; Article 57-26, paragraph (2); Article 60-11 (including as applied mutatis mutandis pursuant to Article 60-12, paragraph (3)); Article 63, paragraph (8); Article 66-22; Article 66-45, paragraph (1); Article 75; Article 79-4; Article 79-77; Article 103-4; Article 106-6, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (2) of that Article); Article 106-16; Article 106-20, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (2) of that Article); Article 106-27 (including as applied mutatis mutandis pursuant to Article 109); Article 151 (including as applied mutatis mutandis pursuant to Article 153-4); Article 155-9; Article 156-5-4; Article 156-5-8; Article 156-15; Article 156-20-12; Article

156-34; Article 156-58; Article 156-80; Article 177, item (ii); Article 185-5; or Article 187, item (iv) must carry an identification card and present the same to the person subject to inspection.

- (2) The authority for an inspection under one of the provisions specified in the preceding paragraph must not be interpreted as having been accorded for the purpose of a criminal investigation.

(Witness' or Expert's Claim for Expenses)

Article 191 A witness or an expert that is ordered to appear or to present an expert opinion pursuant to Article 187, item (i) or (ii) may claim travel and other expenses pursuant to the provisions of Cabinet Office Ordinance, or Cabinet Office Ordinance and Ordinance of the Ministry of Finance.

(Issuance of Prohibition Orders and Stay Orders by the Court)

Article 192 (1) If the court finds it to be urgently necessary and finds it to be necessary and appropriate in the public interest and for the protection of investors, the court may issue an order against a person that has acted or is attempting to act in violation of this Act or an order issued based on this Act, prohibiting or staying that act, at the petition of the Prime Minister or at the petition of the Prime Minister and the Minister of Finance.

- (2) A court may rescind or change an order issued pursuant to the provisions of preceding paragraph.
- (3) The district court governing the domicile of the respondent has jurisdiction over the cases referred to in the preceding two paragraphs.
- (4) The judicial decisions referred to in paragraphs (1) and (2) are governed by the Non-Contentious Cases Procedure Act (Act No. 14 of 1898).

(Terms, Formats, and Preparation Methods for Financial Statements)

Article 193 A balance sheet, profit and loss statement, or other document related to financial accounting submitted pursuant to the provisions of this Act must be prepared in conformity with the terms, formats, and preparation methods that the Prime Minister prescribes in Cabinet Office Ordinance in accordance with the manner generally accepted as fair and proper.

(Audit Certification by a Certified Public Accountant or Auditing Firm)

Article 193-2 (1) A balance sheet, profit and loss statement, or other document related to financial accounting specified by Cabinet Office Ordinance, which is submitted pursuant to the provisions of this Act by a company issuing Securities listed on a Financial Instruments Exchange or any other person specified by Cabinet Order (such an issuing company or person is referred to as the "Specified Issuer" in the following Article; and such a document is referred

to as a "documents on financial accounting" in paragraph (4) and the following Article) require an audit certification by a certified public accountant or auditing firm that has no special interest in the company or person; provided, however, that the above does not apply in the following cases:

- (i) the Issuer of the Securities set forth in Article 2, paragraph (1), item (xvii) which have the nature of Securities set forth in item (ix) of that paragraph or any other Securities specified by Cabinet Order, receives certification that is found to be equivalent to audit certification pursuant to the provisions of Cabinet Office Ordinance, from a Foreign Auditing Firm, etc. (meaning a Foreign Auditing Firm, etc. as prescribed in Article 1-3, paragraph (7) of the Certified Public Accountants Act; the same applies in item (i) of the following paragraph, and paragraph (3));
  - (ii) the Issuer set forth in the preceding item receives certification that is found to be equivalent to audit certification pursuant to the provisions of Cabinet Office Ordinance, from a person that is specified by Cabinet Office Ordinance as referred to in the proviso to Article 34-35, paragraph (1) of the Certified Public Accountants Act;
  - (iii) the company or person obtains the acknowledgement of the Prime Minister pursuant to Cabinet Office Ordinance as being such that, even if the company or person does not receive audit certification, this does not damage the public interest or result in insufficient investor protection.
- (2) An Internal Control Report that the company issuing Securities listed on a Financial Instruments Exchange or any other person specified by Cabinet Order submits pursuant to the provisions of Article 24-4-4 must receive audit certification by a certified public accountant or auditing firm that has no Special Interest in that company or person; provided, however, that this does not apply in the following cases:
- (i) the Issuer set forth in item (i) of the preceding paragraph receives certification that is found to be equivalent to audit certification pursuant to the provisions of Cabinet Office Ordinance, from a Foreign Auditing Firm, etc.;
  - (ii) the Issuer set forth in the preceding item receives certification that is found to be equivalent to audit certification pursuant to the provisions of Cabinet Office Ordinance, from a person that is specified by Cabinet Office Ordinance as referred to in the proviso to Article 34-35, paragraph (1) of the Certified Public Accountants Act;
  - (iii) the company or person obtains the acknowledgement of the Prime Minister pursuant to Cabinet Office Ordinance as being such that, even if the company or person does not receive audit certification, this does not damage the public interest or result in insufficient investor protection.
- (3) The provisions of item (i) of paragraph (1) and item (i) of the preceding

paragraph do not apply if an indication that the Foreign Auditing Firm, etc. set forth therein has failed to follow the instructions set forth in Article 34-38, paragraph (1) of the Certified Public Accountants Act has been disclosed pursuant to the provisions of paragraph (2) of that Article, or an indication that such a firm has issued a notification under Article 34-39, paragraph (1) of that Act has been disclosed pursuant to the provisions of paragraph (2) of that Article (excluding a case in which the disclosure under Article 34-38, paragraph (2) of that Act is made, or in which the disclosure under paragraph (3) of that Article is made).

- (4) The special interest referred to in paragraphs (1) and (2) means an interest from a relationship as set forth in Article 24 of the Certified Public Accountants Act (including as applied mutatis mutandis pursuant to Article 16-2, paragraph (6) of that Act), Article 24-2 of that Act (including as applied mutatis mutandis pursuant to Article 16-2, paragraph (6) of that Act), Article 24-3 of that Act (including as applied mutatis mutandis pursuant to Article 16-2, paragraph (6) of that Act), Article 34-11, paragraph (1), or Article 34-11-2, paragraph (1) or (2) of that Act, which a certified public accountant or auditing firm has to a person submitting a document on financial accounting or to a person submitting an Internal Control Report; the relationship as a shareholder or an equity investor that a certified public accountant or auditing firm has to such a person; or the relationship which a certified public accountant or auditing firm has in connection with such a person's business or property accounting; and which the Prime Minister specifies in Cabinet Office Ordinance as an interest from a relationship that the Prime Minister finds it to be necessary and appropriate to specify in the public interest or for the protection of investors.
- (5) The audit certification referred to in paragraphs (1) and (2) must be done in accordance with the criteria and procedures specified by Cabinet Office Ordinance.
- (6) Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a certified public accountant or auditing firm that conducts an audit certification under paragraph (1) or (2) to submit reports or materials that should serve as a reference.
- (7) If a certified public accountant or auditing firm conducts an audit certification for a document on financial accounting provided for in paragraph (1) or for an Internal Control Report provided for in paragraph (2), and the audit certification falls under the provisions of Article 30 or Article 34-21, paragraph (2), item (i) or (ii) of the Certified Public Accountants Act, or is otherwise wrongful, the Prime Minister may issue a decision not to accept all or part of any Registration Statement, Annual Report (including any amended

report in connection with the same), or Internal Control Report (including any amended report in connection with the same) connected with an audit certification by that certified public accountant or auditing firm, which is submitted within a fixed period of no longer than one year. In such a case, irrespective of the category of proceeding for hearing statements of opinion under Article 13, paragraph (1) of the Administrative Procedure Act, the Prime Minister must conduct a hearing.

- (8) If the Prime Minister issues the decision referred to in the preceding paragraph, the Prime Minister must notify the certified public accountant or auditing firm of this and must publicly announce that decision.

(Responses to the Discovery of a Fact That Constitutes a Violation of Laws and Regulations)

Article 193-3 (1) If a certified public accountant or auditing firm, in the course of the audit certification set forth in paragraph (1) of the preceding Article, discovers a fact in respect of a Specified Issuer which constitutes a violation of laws and regulations, or discovers any other fact that is likely to have an impact on ensuring the appropriateness of a document on financial accounting (referred to as a "Fact Constituting a Violation of Laws and Regulations" in item (i) of the following paragraph), the certified public accountant or auditing firm must issue a written notice to the Specified Issuer, without delay and pursuant to the provisions of Cabinet Office Ordinance, giving the details of that fact, as well as indicating that the Specified Issuer should rectify the violation of laws and regulations that the fact involves or that it should take any other appropriate measures.

- (2) If a certified public accountant or auditing firm that issues a notice under the preceding paragraph finds all of the following particulars to be the case, even after the day on which the period specified by the Cabinet Order has elapsed since the day of that notice, and finds it to be necessary in order to prevent the material impact provided for in item (i), the certified public accountant or auditing firm must file an opinion with respect to those particulars to the Prime Minister pursuant to the provision of Cabinet Office Ordinance. In such a case, the certified public accountant or the auditing firm must give written notice to the Specified Issuer in advance that an opinion will be filed with the Prime Minister:

(i) the Fact Constituting a Violation of Laws and Regulations could have a material impact on ensuring the appropriateness of the documents on financial accounting of the Specified Issuer; and

(ii) the Specified Issuer has received the notice under the preceding paragraph but has not implemented any of the appropriate measures provided for in that paragraph.

(3) A certified public accountant or auditing firm that makes a filing under the preceding paragraph must issue a written notice to the Specified Issuer that it has made the filing, giving the details of that filing.

(Prohibition against the Solicitation to Allow the Exercise of Voting Rights by Proxy)

Article 194 It is prohibited for any person to solicit a person to allow one's self or a third party to exercise, by proxy, that person's voting rights in respect of shares in a company issuing shares that are listed on a Financial Instruments Exchange, in a way that violates the provisions of Cabinet Order.

(Application of This Act to Transactions on a Foreign Financial Instruments Market)

Article 194-2 The technical replacement of terms when the provisions of this Act are applicable to a purchase and sale of Securities or intermediation, brokerage, or agency for the entrustment of Foreign Market Transactions of Derivatives conducted on a foreign Financial Instruments Market, and necessary particulars otherwise relevant to the application of the provisions of this Act to said transactions conducted on a foreign Financial Instruments Market are specified by Cabinet Order.

(Consultation with the Minister of Finance)

Article 194-3 If the Prime Minister finds that effecting one of the following dispositions against a Financial Services Provider (limited to a person engaged in Type I Financial Instruments Business set forth in Article 28, paragraph (1)), registered financial institution, Authorized Operator for On-Exchange Transactions, Authorized Financial Instruments Business Association, Financial Instruments Exchange, Foreign Financial Instruments Exchange, Financial Instruments Clearing Organization, Foreign Financial Instruments Clearing Organization, or Securities Finance Company is likely to have a material impact on the distribution of Securities or Market Transactions of Derivatives, the Prime Minister must consult with the Minister of Finance about measures necessary for achieving a smooth distribution of Securities or Market Transactions of Derivatives, before effecting that disposition:

- (i) an order for the suspension of all or a part of business activities under the provisions of Article 52, paragraph (1), Article 52-2, paragraph (1) or Article 53, paragraph (2);
- (ii) the rescission of an Article 29 registration, under the provisions of Article 52, paragraph (1) or Article 53, paragraph (3);
- (iii) the rescission of an Article 33-2 registration, under the provisions of Article 52-2, paragraph (1);

- (iii)-2 an order for the suspension of all or a part of business activities under the provisions of Article 57-6, paragraph (1) or Article 57-20, paragraph (2);
- (iii)-3 the rescission of an Article 29 registration, under the provisions of Article 57-6, paragraph (3);
- (iv) an order for the suspension of all or a part of business activities under the provisions of Article 60-8, paragraph (1);
- (v) the rescission of an Article 60, paragraph (1) permission, under the provisions of Article 60-8, paragraph (1);
- (vi) the rescission of Article 67-2, paragraph (2) authorization, under the provisions of Article 67-6 or Article 74, paragraph (1);
- (vii) an order for the suspension of all or a part of business activities under the provisions of Article 74, paragraph (1);
- (viii) the rescission of an Article 80, paragraph (1) license, under the provisions of Article 148 or Article 152, paragraph (1), item (i);
- (ix) an order for the suspension of all or a part of business activities under the provisions of Article 152, paragraph (1), item (i);
- (x) an order under the provisions of Article 152, paragraph (1), item (ii);
- (xi) the rescission of Article 155, paragraph (1) authorization, under the provisions of Article 155-6 or Article 155-10, paragraph (1);
- (xii) an order for the suspension of all or a part of Foreign Market Transactions under Article 155-10, paragraph (1);
- (xiii) the rescission of an Article 156-2 license, under the provisions of Article 156-17, paragraph (1) or (2); or the rescission of Article 156-19, paragraph (1) approval, under the provisions of Article 156-17, paragraph (2) or Article 156-20, paragraph (1);
- (xiv) an order for the suspension of all or a part of business activities under the provisions of Article 156-17, paragraph (2);
- (xiv)-2 the rescission of an Article 156-20-2 license, under the provisions of Article 156-20-14, paragraph (1) or (2);
- (xiv)-3 an order for the suspension of all or a part of business activities under the provisions of Article 156-20-14, paragraph (2);
- (xiv)-4 the rescission of Article 156-20-16, paragraph (1) authorization, under the provisions of Article 156-20-20 or Article 156-20-22;
- (xiv)-5 an order for the suspension of all or a part of business activities under the provisions of Article 156-20-22;
- (xv) the rescission of an Article 156-24, paragraph (1) license, under the provisions of Article 148 as applied mutatis mutandis pursuant to Article 156-26, or Article 156-32, paragraph (1); or
- (xvi) an order for the suspension of all or a part of business activities under the provisions of Article 156-32, paragraph (1).

(Notice to the Minister of Finance)

Article 194-4 (1) Upon effecting one of the following dispositions, the Prime Minister is to promptly notify the Minister of Finance of this; provided, however, that this does not apply if the Prime Minister notifies the Minister of Finance pursuant to the provisions of Article 79-53, paragraph (3):

- (i) a registration under the provisions of Article 29 or Article 33-2 (with regard to Article 29 registration, this is only if a Financial Instruments Exchange Services Provider that is registered engages in Type I Financial Instruments Business (meaning the Type I Financial Instruments Business set forth in Article 28, paragraph (1); hereinafter the same applies in this item)), or the registration of a change under Article 31, paragraph (4) (limited to the registration of a change indicating that a person other than a person engaged in Type I Financial Instruments Business has become a person engaged in Type I Financial Instruments Business, or the registration of a change indicating that a person engaged in Type I Financial Instruments Business only engages in business other than Type I Financial Instruments Business);
- (ii) authorization under the provisions of Article 30, paragraph (1);
- (iii) an order under the provisions of Article 52, paragraph (1), Article 52-2, paragraph (1), or Article 53, paragraph (1) or (2);
- (iv) the rescission of an Article 29 registration, under the provisions of Article 52, paragraph (1) or (4), Article 53, paragraph (3) or Article 54;
- (v) the rescission of an Article 33-2 registration, under the provisions of Article 52-2, paragraph (1) or (3) or Article 54;
- (vi) the rescission of Article 30, paragraph (1) authorization, under the provisions of Article 52, paragraph (1);
- (vi)-2 an order under the provisions of Article 57-6, paragraph (1); Article 57-20, paragraph (2); or Article 57-21, paragraph (4) (if this is an order under the provisions of Article 57-20, paragraph (2), it is limited to one that concerns a Subject Special Financial Services Provider);
- (vi)-3 the rescission of an Article 29 registration, under the provisions of Article 57-6, paragraph (3);
- (vi)-4 a designation under the provisions of Article 57-12, paragraph (1);
- (vi)-5 the rescission of an Article 57-12, paragraph (1) designation, under the provisions of paragraph (5) of that Article;
- (vi)-6 an order under the provisions of Article 57-20, paragraph (1) or (2) or Article 57-21, paragraph (1) or (2) (if this is an order under the provisions of Article 57-20, paragraph (2), it is limited to one that concerns a Designated Parent Company);
- (vii) permission under the provisions of Article 60, paragraph (1);
- (viii) an order under the provisions of Article 60-8, paragraph (1);
- (ix) the rescission of an Article 60, paragraph (1) permission, under the

- provisions of Article 60-8, paragraph (1) or Article 60-9;
- (x) authorization under the provisions of Article 67-2, paragraph (2);
  - (xi) the rescission of an Article 67-2, paragraph (2) authorization, under the provisions of Article 67-6 or Article 74, paragraph (1);
  - (xii) authorization to change the articles of incorporation in connection with the particulars set forth in Article 67-8, paragraph (1), item (xiii) (limited to authorization for the establishment or closure of an Over-the-Counter Securities Market), under the provisions of Article 67-8, paragraph (2);
  - (xiii) an order for the suspension of all or a part of business activities, an order for a change of business methods, or an order prohibiting a part of business activities, under the provisions of Article 74, paragraph (1);
  - (xiv) authorization under the provisions of Article 77-6, paragraph (2);
  - (xv) a license under the provisions of Article 80, paragraph (1);
  - (xvi) authorization under the provisions of Article 106-3, paragraph (1);
  - (xvii) an order under the provisions of Article 106-7, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (4) of that Article);
  - (xviii) the rescission of an Article 106-3, paragraph (1) authorization, under the provisions of Article 106-7, paragraph (1);
  - (xix) authorization under the provisions of Article 106-10, paragraph (1) or the proviso to paragraph (3) of that Article;
  - (xx) authorization under the provisions of Article 106-17, paragraph (1);
  - (xxi) an order under the provisions of Article 106-21, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (4) of that Article);
  - (xxii) the rescission of an Article 106-17, paragraph (1) authorization, under the provisions of Article 106-21, paragraph (1);
  - (xxiii) the rescission of Article 106-10, paragraph (1) authorization or the authorization referred to in the proviso to paragraph (3) of that Article, under the provisions of Article 106-26;
  - (xxiv) an order under the provisions of Article 106-28, paragraph (1) (including as applied mutatis mutandis pursuant to Article 109);
  - (xxv) the rescission of Article 106-10, paragraph (1) authorization or the authorization referred to in the proviso to paragraph (3) of that Article, under the provisions of Article 106-28, paragraph (1);
  - (xxvi) authorization under the provisions of Article 135, paragraph (1);
  - (xxvii) authorization under the provisions of Article 140, paragraph (1);
  - (xxviii) the rescission of an Article 80, paragraph (1) license, under the provisions of Article 148 or Article 152, paragraph (1), item (i);
  - (xxix) authorization under the provisions of Article 149, paragraph (1) (limited to authorization for the closure of all Financial Instruments Exchange Markets);
  - (xxx) an order for the suspension of all or a part of business activities, an order

- for a change in business activities, or an order prohibiting a part of business activities, under the provisions of Article 152, paragraph (1), item (i);
  - (xxxix) an order under the provisions of Article 152, paragraph (1), item (ii);
  - (xxxix) authorization under the provisions of Article 155, paragraph (1);
  - (xxxix) the rescission of Article 155, paragraph (1) authorization, under the provisions of Article 155-6 or 155-10, paragraph (1);
  - (xxxix) an order under the provisions of Article 155-10, paragraph (1);
  - (xxxix) a license under the provisions of Article 156-2, or approval under the provisions of Article 156-19, paragraph (1);
  - (xxxix)-2 authorization under the provisions of Article 156-5-5, paragraph (1) or the proviso to paragraph (4) of that Article;
  - (xxxix)-3 an order under the provisions of Article 156-5-9, paragraph (1);
  - (xxxix)-4 the rescission of an Article 156-5-5, paragraph (1) authorization or the authorization referred to in the proviso to paragraph (4) of that Article, under the provisions of Article 156-5-9, paragraph (1);
  - (xxxix) the rescission of an Article 156-2 license, under the provisions of Article 156-17, paragraph (1) or (2); or the rescission of Article 156-19, paragraph (1) approval, under the provisions of Article 156-17, paragraph (2) or Article 156-20, paragraph (1);
  - (xxxix) an order for the suspension of all or a part of business activities under the provisions of Article 156-17, paragraph (2);
  - (xxxix) authorization under the provisions of Article 156-18;
  - (xxxix)-2 a license under the provisions of Article 156-20-2;
  - (xxxix)-3 the rescission of an Article 156-20-2 license, under the provisions of Article 156-20-14, paragraph (1) or (2);
  - (xxxix)-4 an order for the suspension of all or a part of business activities under the provisions of Article 156-20-14, paragraph (2);
  - (xxxix)-5 authorization under the provisions of Article 156-20-15;
  - (xxxix)-6 authorization under the provisions of Article 156-20-16, paragraph (1);
  - (xxxix)-7 the rescission of Article 156-20-16, paragraph (1) authorization, under the provisions of Article 156-20-20 or Article 156-20-22;
  - (xxxix)-8 an order under the provisions of Article 156-20-22;
  - (xxxix) a license under the provisions of Article 156-24, paragraph (1);
  - (xl) the rescission of an Article 156-24, paragraph (1) license, under the provisions of Article 148 as applied mutatis mutandis pursuant to Article 156-26, or the provisions of Article 156-32, paragraph (1);
  - (xli) an order for the suspension of all or a part of business activities under the provisions of Article 156-32, paragraph (1); or
  - (xlii) authorization under the provisions of Article 156-36.
- (2) Upon accepting one of the following notifications, the Prime Minister is to

promptly notify the Minister of Finance to that effect:

- (i) a notification under the provisions of Article 50-2, paragraph (1) or (7);
  - (ii) a notification under the provisions of Article 60-7;
  - (iii) a notification under the provisions of Article 67-16 (limited to notification of the suspension of all purchase and sales of Over-the-Counter Traded Securities registered by an Authorized Financial Instruments Business Association, or notification of the cancellation of such a suspension);
  - (iv) a notification under the provisions of Article 77-6, paragraph (3);
  - (v) a notification under the provisions of Article 106-8, paragraph (2), Article 106-22, paragraph (2), or Article 107, paragraph (2);
  - (vi) a notification under the provisions of Article 120;
  - (vii) a notification under the provisions of Article 128 (limited to notification of the suspension of all purchase and sales of Securities or Market Transactions of Derivatives for each Financial Instruments Exchange Market, or notification of the cancellation of such a suspension);
  - (viii) a notification under the provisions of Article 134, paragraph (2) or Article 135, paragraph (2); or
  - (ix) a notification under the provisions of Article 155-8, paragraph (2).
- (3) If the Prime Minister receives a notice under the provisions of Article 77-6, paragraph (4) or Article 154 with regard to an Authorized Financial Instruments Business Association or Financial Instruments Exchange, the Prime Minister is to promptly notify the Minister of Finance to that effect.

(Submission of Materials to the Minister of Finance)

Article 194-5 (1) If the Minister of Finance finds it to be necessary in order to conduct planning or policymaking for financial instruments trading systems as relates to the system for handling failed financial institutions and financial risk management under the minister's jurisdiction, the minister may request the Prime Minister to provide the necessary materials and explanations.

(2) If the Minister of Finance finds it to be particularly necessary in order to conduct planning or policymaking for financial instruments trading systems as relates to the system for handling failed financial institutions and financial risk management under the minister's jurisdiction, the Minister of Finance, within the scope of this necessity, may request a Financial Services Provider, etc., Designated Parent Company, Authorized Operator for On-Exchange Transactions, Financial Instruments Intermediary, Authorized Financial Instruments Business Association, Certified Financial Instruments Association (meaning a Certified Financial Instruments Firms Association set forth in Article 78, paragraph (2); the same applies in Article 194-7, paragraph (2), item (v)), Financial Instruments Exchange, self-regulatory organization under Article 85, paragraph (1), Financial Instruments Exchange Holding Company,

Foreign Financial Instruments Exchange, Financial Instruments Clearing Organization, Foreign Financial Instruments Clearing Organization, Securities Finance Company, or other relevant party to provide materials or explanations or any other cooperation.

(Consultation with the Minister of Agriculture, Forestry and Fisheries and the Minister of Economy, Trade and Industry)

Article 194-6 (1) Provisions are made by Cabinet Order for consultations with the Minister of Agriculture, Forestry and Fisheries and the Minister of Economy, Trade and Industry, the notification of these ministers, and other processes when, pursuant to the provisions of this Act, the Prime Minister establishes Cabinet Office Ordinance (limited to those specified by Cabinet Order), issues an order or other disposition (limited to those specified by Cabinet Order), or receives a notification (limited to those specified by Cabinet Order) or an application for registration, in respect of the business of performing the following acts in connection with rights set forth in Article 2, paragraph (2), item (i), (ii), (v), and (vi) which fall under the category of rights specified by Cabinet Order as those whose purpose is for a person to engage in the commodity investment provided for in Article 2, paragraph (1) of the Act Regulating Business Involving Commodity Investment, or whose purpose is for a person to invest goods with substantial price volatility or goods generating a profit when used that is difficult to estimate, by acquiring them (this includes producing them), transferring them, using them, or causing them to be used:

- (i) purchase and sales, or intermediation, brokerage, or agency for it;
- (ii) Public Offerings or Private Placements;
- (iii) Secondary Distributions; or
- (iv) dealings in Public Offerings or Secondary Distributions, or dealings in Private Placements.

(2) If the Prime Minister effects an Article 29 or Article 33-2 registration or accepts an Article 31, paragraph (1) or Article 33-6, paragraph (1) notification for a person seeking to perform an act set forth in one of the following items in the course of trade, the Prime Minister is to notify the Minister of Economy, Trade and Industry of the information set forth in Article 29-2, paragraph (1) or Article 33-3, paragraph (1) with regard to that person:

- (i) an act set forth in Article 2, paragraph (8), item (vii) (limited to an act involving a right based on a limited partnership agreement for investment as set forth in Article 3, paragraph (1) of the Limited Partnership Act for Investment, which falls under a right referred to in Article 2, paragraph (2), item (v) of this Act (hereinafter referred to as a "Right in an Investment Limited Partnership" in this Article)); or
- (ii) an act set forth in Article 2, paragraph (8), item (xv) (limited to an act

- involving a Right in an Investment Limited Partnership).
- (3) If the Prime Minister accepts a notification based on the provisions of Article 63, paragraph (2) in connection with a person that seeks to perform an act set forth in one of the following items in the course of trade, the Prime Minister is to notify the Minister of Economy, Trade and Industry of the matters set forth in the items of Article 63, paragraph (2) relevant to that person:
- (i) an act set forth in Article 63, paragraph (1), item (i) (limited to an act involving a Right in an Investment Limited Partnership); and
  - (ii) an act set forth in Article 63, paragraph (1), item (ii) (limited to an act involving a Right in an Investment Limited Partnership).

(Prior Notice to the Minister With Jurisdiction Over a Commodity Market)  
Article 194-6-2 Before issuing one of the following dispositions against a Financial Instruments Exchange Holding Company or a Financial Instruments Exchange, the Prime Minister is to notify the minister with jurisdiction over the commodity market (meaning the minister specified in the relevant of the items of Article 354, paragraph (1) of the Commodity Futures Act for the category set forth in that item):

- (i) the rescission of Article 106-10, paragraph (1) authorization or the authorization referred to in the proviso to paragraph (3) of that Article (limited to the authorization of a Financial Instruments Exchange Holding Company that has a company in the business of operating the necessary market for effecting Commodity Futures Transactions (hereinafter referred to as "Business Activities Related to a Commodity Market" in this Article) as its Subsidiary Company (meaning a Subsidiary Company as prescribed in Article 87-3, paragraph (3); the same applies in item (iii))), under the provisions of Article 106-26 or Article 106-28, paragraph (1);
- (ii) the rescission of the authorization referred to in the proviso to Article 106-24, paragraph (1) (limited to the authorization of a company engaged in Business Activities Related to a Commodity Market), under the provisions of Article 106-28, paragraph (1);
- (iii) the rescission of an Article 80, paragraph (1) license (limited to the license of a Financial Instruments Exchange that has obtained the authorization referred to in the proviso to Article 87-2, paragraph (1) (limited to authorization for Business Activities Related to a Commodity Market) or a Financial Instruments Exchange that has a company engaged in Business Activities Related to a Commodity Market with the authorization referred to in the proviso to Article 87-3, paragraph (1) as its Subsidiary Company), under the provisions of Article 148 or Article 152, paragraph (1), item (i);
- (iv) the rescission of the authorization referred to in the proviso to Article 87-2, paragraph (1) (limited to authorization for Business Activities Related to a

Commodity Market), under the provisions of Article 152, paragraph (1), item (iii);

- (v) rescission of the authorization referred to in the proviso to Article 87-3, paragraph (1) (limited to the authorization of a company engaged in Business Activities Related to a Commodity Market) under the provisions of Article 152, paragraph (1), item (iv).

(Delegation of Authority to the Commissioner of the Financial Services Agency)  
Article 194-7 (1) The Prime Minister is to delegate the authority accorded the Prime Minister under this Act to the Commissioner of the Financial Services Agency (except the authority specified by Cabinet Order).

(2) Among the authority delegated to the Commissioner of the Financial Services Agency pursuant to the provisions of the preceding paragraph, the commissioner is to delegate the authority set forth in the following to the Securities and Exchange Surveillance Commission (hereinafter referred to as the "Commission" in this and the following Article); provided, however, that this does not preclude the Commissioner of the Financial Services Agency from exercising the authority to issue an order for the submission of reports or materials:

- (i) the authority under the provisions of Article 56-2, paragraph (1), (3), and (4) (limited to authority in connection with provisions specified by Cabinet Order as those for securing fairness in purchase and sales and other transactions of Securities or in Derivatives Transactions, etc.);
- (ii) the authority under the provisions of Article 60-11 (limited to authority in connection with the provisions specified by Cabinet Order as those for securing fairness in purchase and sales and other transactions of Securities or in Derivatives Transactions, etc.);
- (iii) the authority under the provisions of Article 66-22 (limited to authority in connection with the provisions specified by Cabinet Order as those for securing fairness in the acts set forth in Article 2, paragraph (11), items (i) to (iii) inclusive);
- (iii)-2 the authority under the provisions of Article 66-45, paragraph (1) (limited to authority in connection with the provisions specified by Cabinet Order as that for securing fairness in the acts provided for in Article 2, paragraph (35));
- (iv) the authority under the provisions of Article 75 (limited to authority over the business specified by Cabinet Order as the business of an Authorized Financial Instruments Business Association in connection with securing fairness in purchase and sales and other transactions of Securities and in Derivatives Transactions, etc.);
- (v) the authority under the provisions of Article 79-4 (limited to authority over

- the business specified by Cabinet Order as the business of a Certified Financial Instruments Business Association in connection with securing fairness in purchase and sales and other transactions of Securities and in Derivatives Transactions, etc.);
- (vi) the authority under the provisions of Article 151 (including as applied *mutatis mutandis* pursuant to Article 153-4) (limited to authority over the business specified by Cabinet Order as the business of a Financial Instruments Exchange or of a self-regulatory organization provided for in Article 85, paragraph (1), in connection with securing fairness in purchase and sales of Securities and Market Transactions of Derivatives on a Financial Instruments Exchange);
- (vii) the authority under the provisions of Article 155-9 (limited to authority over the business specified by Cabinet Order as the business of a Foreign Financial Instruments Exchange in connection with securing fairness in Foreign Market Transactions);
- (viii) the authority under the provisions of Article 177; and
- (ix) other authority specified by Cabinet Order.
- (3) Among the authority delegated to the Commissioner of the Financial Services Agency pursuant to paragraph (1), the commissioner, pursuant to the provisions of Cabinet Order, may delegate the authority under Article 26 (including as applied *mutatis mutandis* pursuant to Article 27); Article 27-22, paragraph (1) (including as applied *mutatis mutandis* pursuant to Article 27-22-2, paragraph (2)); Article 27-22, paragraph (2); Article 27-30; Article 27-35; Article 56-2, paragraph (1) (including as applied *mutatis mutandis* pursuant to Article 65-3, paragraph (3)); Article 56-2, paragraph (2) to paragraph (4) inclusive; Article 57-10, paragraph (1); Article 57-23; Article 57-26, paragraph (2); Article 60-11 (including as applied *mutatis mutandis* pursuant to Article 60-12, paragraph (3)); Article 63, paragraphs (7) and (8); Article 66-22; Article 66-45, paragraph (1); Article 75; Article 79-4; Article 79-77; Article 103-4; Article 106-6, paragraph (1) (including as applied *mutatis mutandis* pursuant to paragraph (2) of that Article); Article 106-16; Article 106-20, paragraph (1) (including as applied *mutatis mutandis* pursuant to paragraph (2) of that Article); Article 106-27 (including as applied *mutatis mutandis* pursuant to Article 109); Article 151 (including as applied *mutatis mutandis* pursuant to Article 153-4); Article 155-9; Article 156-5-4; Article 156-5-8; Article 156-15; Article 156-20-12; Article 156-34; Article 156-58; Article 156-80; and Article 193-2, paragraph (6) to the Commission (other than the authority delegated to the Commission pursuant to the provisions of the preceding paragraph).
- (4) Among the authority delegated to the Commissioner of the Financial Services Agency pursuant to the provisions of paragraph (1), the commissioner is to delegate to the Commission the authority set forth in the following (other than

authority delegated to the Commission pursuant to the preceding two paragraphs); provided, however, that this does not preclude the Commissioner of the Financial Services Agency from exercising such authority personally:

- (i) the authority under Article 187 (limited to that which involves the authority specified in the following item); and
  - (ii) the authority under Article 192, paragraph (1).
- (5) If the Commission exercises authority delegated to it pursuant to the provisions of the preceding two paragraphs, it is to promptly report the results of this to the Commissioner of the Financial Services Agency.
- (6) The Commissioner of the Financial Services Agency may delegate a part of the authority delegated to the commissioner pursuant to the provisions of paragraph (1) (other than authority delegated to the Commission pursuant to the provisions of paragraphs (2) to (4) inclusive) to the Director-General of a Local Finance Bureau or to the Director-General of a Local Finance Branch Bureau, pursuant to the provisions of Cabinet Order.
- (7) The Commission may delegate a part of the authority delegated to it pursuant to the provisions of paragraphs (2) to (4) inclusive to the commissioner of a finance bureau or to the commissioner of a local finance branch bureau, pursuant to the provisions of Cabinet Order.
- (8) The Commission guides and supervises functions related to the authority that is delegated to the Director-General of the Local Finance Bureau or the Director General of the Local Finance Branch Bureau pursuant to the provisions of the preceding paragraph.

(Filing of an Appeal against the Commission)

Article 195 It is only permissible for an appeal under the Administrative Appeal Act which concerns an order for the submission of reports or materials that the Commission issues pursuant to paragraph (2) or (3) of the preceding Article (including an order that the Director-General of a Local Finance Bureau or the Director-General of a Local Finance Branch Bureau issues pursuant to the provisions of paragraph (7) of that Article) to be filed against the Commission.

(Provisions Effected by Voidance)

Article 196 Even if a provision of this Act is held to be void, such voidance does not affect any other provision of this Act.

(Transitional Measures)

Article 196-2 If an order is established, revised, or abolished based on the provisions of this Act, any necessary transitional measures (including transitional measures for penal provisions) may be prescribed in that order, to the extent that is considered to be reasonably necessary for the establishment,

revision, or abolition of that order.

### **Chapter VIII Penal Provisions**

Article 197 (1) A person that falls under one of the following items is subject to punishment by imprisonment with required labor for not more than 10 years, a fine of not more than ten million yen, or both:

- (i) a person that submits a statement or other document under Article 5 (including as applied mutatis mutandis pursuant to Article 27) (including any Reference Document for such a statement, if it is a statement to which the provisions of Article 5, paragraph (4) apply); an amended statement under Article 7; Article 9, paragraph (1); or Article 10, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27) (including any Reference Document for that amended statement); a Shelf Registration Statement under Article 23-3, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 27) (including any Reference Document for that Shelf Registration Statement) and accompanying documents; an Amended Shelf Registration Statement under Article 23-4; Article 23-9, paragraph (1); or Article 23-10, paragraph (1); or under Article 23-10, paragraph (1) as applied mutatis mutandis pursuant to paragraph (5) of that Article (including as applied mutatis mutandis pursuant to Article 27) (including any Reference Document for that Amended Shelf Registration Statement); a Shelf Registration Supplement under Article 23-8, paragraph (1) or (5) (including as applied mutatis mutandis pursuant to Article 27) (including any Reference Document for that Shelf Registration Supplement) and accompanying documents; or an Annual Report under Article 24, paragraph (1) or (3) (including as applied mutatis mutandis pursuant to Article 24, paragraph (5) (including as applied mutatis mutandis pursuant to Article 27) or Article 27) or Article 24-2, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27) or any amended report in connection with it, that contains a false statement about a material particular or that omits a statement as to a material particular that is required to be stated;
- (ii) a person that makes a false representation about a material particular in issuing a public notice, making a public announcement, or making a disclosure, under Article 27-3, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); Article 27-6, paragraph (2) or (3) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); Article 27-7, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 27-8, paragraph (12) and Article 27-22-2, paragraphs (2) and (6)); Article 27-8, paragraph (8)

- (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2) and Article 27-22-3, paragraph (4)); Article 27-8, paragraph (11) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); Article 27-10, paragraph (4) to (6) inclusive; Article 27-11, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); or Article 27-13, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2));
- (iii) a person that submits a Tender Offer Statement under Article 27-3, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); amended statement under Article 27-8, paragraph (1) to (4) inclusive (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); Written Tender Offer Withdrawal Notice under Article 27-11, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); Tender Offer Report under Article 27-13, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); or amended report under Article 27-8, paragraph (1) to (4) inclusive as applied mutatis mutandis pursuant to Article 27-13, paragraph (3) and Article 27-22-2, paragraph (7), that contains a false statement about a material particular or that omits a statement as to a material particular that is required to be stated;
- (iv) a person that fails to make a disclosure under Article 27-22-3, paragraph (1) or (2), or that makes a false disclosure;
- (iv)-2 a person that provides or discloses Specified Information on Securities under Article 27-31, paragraph (2) (if this is Specified Information on Securities to which the provisions of paragraph (3) of that Article applies, it includes the Reference Information related to that Specified Information on Securities); amended Specified Information on Securities under paragraph (4) of that Article (including any Reference Information related to the amended Specified Information on Securities), Information on the Issuer under Article 27-32, paragraph (1) or (2); or Amended Information on the Issuer under paragraph (3) of that Article, which contains a false statement about a material particular; or
- (v) a person that violates the provisions of Article 157, Article 158, or Article 159.
- (2) A person that, by committing the crime referred to in item (v) of the preceding paragraph and for the purpose of gaining an economic benefit, causes the market price of Securities, etc. to fluctuate or that pegs their market price, fixes their market price, or causes their market price to stabilize, and effects a purchase and sale or other transaction of Securities or a Derivatives Transaction, etc. involving those Securities, etc., at the market price that the person has caused to fluctuate or has pegged, fixed, or caused to stabilize, is

subject to punishment by imprisonment with required labor for not more than ten years or by a fine of not more than thirty million yen.

Article 197-2 A person that falls under one of the following items is subject to punishment by imprisonment with required labor for not more than five years, a fine of not more than five million yen, or both:

- (i) a person that conducts a Public Offering or Secondary Distribution of Securities for which a notification under Article 4, paragraph (1) is required; that issues a General Solicitation Involving Securities Acquired by a Qualified Institutional Investor for which a notification under Article 4, paragraph (2) is required; that issues a General Solicitation Involving Securities Acquired by a Professional Investor for which a notification under Article 4, paragraph (3) is required; or that handles one of these, in spite of the required notifications not having been accepted;
- (ii) a person that, in submitting or sending a copy of a document under Article 6 (including as applied mutatis mutandis pursuant to Article 12; Article 23-12, paragraph (1); Article 24, paragraph (7); Article 24-2, paragraph (3); Article 24-4-4, paragraph (5); Article 24-4-5, paragraph (2); Article 24-4-7, paragraph (5); Article 24-5, paragraph (6); Article 24-6, paragraph (3); and these provisions (excluding Article 24-6, paragraph (3)) as applied mutatis mutandis pursuant to Article 27); Article 24-7, paragraph (4) (including as applied mutatis mutandis pursuant to Article 24-7, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27) and Article 27); Article 27-3, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27-8, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27-13, paragraph (3))); Article 27-11, paragraph (4); Article 27-13, paragraph (3); and Article 27-22-2, paragraphs (2) and (3)); or Article 27-22-2, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (8)), submits or sends, as a copy of the original document, a document that contains a false statement about a material particular and whose contents differ from those of the original document;
- (iii) a person that violates the provisions of Article 15, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27); Article 23-8, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27); Article 27-3, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); Article 27-8, paragraph (7) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); or Article 27-8, paragraph (9) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2) and Article 27-22-3, paragraph (4));
- (iv) a person that fails to issue public notice under Article 27-3, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2,

- paragraph (2)) or Article 27-10, paragraph (4);
- (v) a person that fails to submit an Annual Report under Article 24, paragraph (1) or (3) (including as applied mutatis mutandis pursuant to Article 24, paragraph (5) (including as applied mutatis mutandis pursuant to Article 27) and Article 27) or Article 24, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27) or to submit an accompanying document, amended report under Article 10, paragraph (1) as applied mutatis mutandis pursuant to Article 24-2, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27), an Internal Control Report under Article 24-4-4, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24-4-4, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27) and Article 27) or Article 24-4-4, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27) or an accompanying document for it, an amended report under Article 10, paragraph (1) as applied mutatis mutandis pursuant to Article 24-4-5, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27), Tender Offer Statement under Article 27-3, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)), Written Tender Offer Withdrawal Notice under Article 27-11, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)), Tender Offer Report under Article 27-13, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)), Statement of Large-Volume Holdings under Article 27-23, paragraph (1) or Article 27-26, paragraph (1), or Statement of Changes under Article 27-25, paragraph (1) or Article 27-26, paragraph (2);
- (vi) a person that submits an accompanying document, an Internal Control Report or an accompanying document for the same, or a Quarterly Report, Semiannual Report, Ad Hoc Report, or any amended report in connection with one of these, under Article 24, paragraph (6); Article 24-2, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27); Article 24-4-4, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24-4-4, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27) and Article 27); Article 24-4-4, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27); Article 24-4-5, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27); Article 24-4-7, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 24-4-7, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27) and Article 27); Article 24-4-7, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27); Article 24-5, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24-5, paragraph (3) (including as applied mutatis mutandis pursuant to Article

- 27) and Article 27), or Article 24-5, paragraph (4) or (5) (including as applied mutatis mutandis pursuant to Article 27); a Report on Repurchase under Article 24-6, paragraph (1) or (2) or any amended report in connection with this; a Parent Company, etc. Status Report under Article 7; Article 9, paragraph (1); or Article 10, paragraph (1) as applied mutatis mutandis pursuant to Article 24-7, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 24-7, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27) and Article 27) or Article 24-7, paragraph (3) (including as applied mutatis mutandis pursuant to Article 24-7, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27) and Article 27) or any amended report in connection with this; a Target Company's Position Statement under Article 27-10, paragraph (1), amended report under Article 27-8, paragraph (1) to (4) inclusive as applied mutatis mutandis pursuant to Article 27-10, paragraph (8), Tender Offeror's Answer under Article 27-10, paragraph (11), amended report under Article 27-8, paragraph (1) to (4) inclusive as applied mutatis mutandis pursuant to Article 27-10, paragraph (12), Statement of Large-Volume Holdings under Article 27-23, paragraph (1) or Article 27-26, paragraph (1), Statement of Changes under Article 27-25, paragraph (1) or Article 27-26, paragraph (2), or amended report under Article 9, paragraph (1) or Article 10, paragraph (1) as applied mutatis mutandis pursuant to Article 27-25, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27-26, paragraph (6)) or Article 27-29, paragraph (1) that contains a false statement about a material particular;
- (vii) a person that, in making a copy of a document under Article 25, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27) (other than a document set forth in Article 25, paragraph (1), items (v) and (ix)) available for public inspection, makes a document that contains a false statement about a material particular and whose contents differ from those of the original document available for public inspection, as a copy of the original document;
- (viii) a person that delivers a Tender Offer Explanation under Article 27-9, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)), or a Tender Offer Explanation amended pursuant to Article 27-9, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)), that contains a false statement about a material particular;
- (ix) a person that issues public notice indicating that it is changing the Terms of Purchase, etc. of a Tender Offer in a way that violates the provisions of Article 27-6, paragraph (1), or that gives public notice indicating that it is effecting a Tender Offer Withdrawal, etc. under the main clause of Article

- 27-11, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)) in spite of not falling under the provisions of the proviso to Article 27-11, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2));
- (x) a person that fails to give the notice under Article 27-22-3, paragraph (2), or that gives a false notice;
  - (x)-2 a person that issues or handles a Specified Solicitation, etc., in spite of the Specified Information on the Securities involved in that Specified Solicitation, etc. not having been provided or disclosed;
  - (x)-3 a person that fails to provide or disclose the Information on the Issuer under Article 27-32, paragraph (1) or (2), or a person that commits a violation of the provisions of paragraph (4) of that Article (limited to the part that involves the Information on the Issuer);
  - (x)-4 a person that commits a violation of the provisions of Article 40-4 or Article 66-14-2;
  - (xi) an officer of an Incorporated Association-Operated Financial Instruments Exchange (including a provisional board member or provisional inspector; the same applies in the following item) or an employee entrusted with a certain kind of item of business or a specific item of business at an Incorporated Association-Operated Financial Instruments Exchange, that has used a Prospectus, advertisement, or other solicitation document that contains a false statement about a material particular, in soliciting persons to subscribe for shares issued pursuant to the provisions of Article 101-9 (including private placement; hereinafter the same applies in this item);
  - (xii) an officer of an Incorporated Association-Operated Financial Instruments Exchange or an employee of an Incorporated Association-Operated Financial Instruments Exchange that is entrusted with certain kind of item of business or a specific item of business, and that borrows and deposits money in order to disguise the payment of shares issued pursuant to the provisions of Article 101-9, or a person that complies with such borrowing and depositing of money; or
  - (xiii) a person that violates the provisions of Article 166, paragraph (1) or (3) or Article 167, paragraph (1) or (3).

Article 198 A person that falls under one of the following items is subject to punishment by imprisonment with required labor for not more than three years, a fine of not more than three million yen, or both:

- (i) a person that, in violation of Article 29, engages in Financial Instruments Business without being registered by the Prime Minister;
- (ii) a person that receives Article 29, Article 66, or Article 66-27 registration, an Article 31, paragraph (4) registration of a change, or Article 59,

- paragraph (1) or Article 60, paragraph (1) permission by wrongful means;
- (iii) a person that violates the provisions of Article 36-3, Article 66-9, or Article 66-34 in allowing another person to engage in Financial Instruments Business or to perform the services of a registered financial institution, Financial Instruments Intermediation, or Credit Rating Services;
- (iii)-2 a person that violates the provisions of Article 59, paragraph (1) or Article 60, paragraph (1), in conducting business prescribed in Article 59, paragraph (1) or Article 60, paragraph (1) without obtaining permission from the Prime Minister;
- (iii)-3 a person that violates the provisions of Article 36-3 as applied mutatis mutandis pursuant to Article 59-6 or Article 60-13, in causing another person to conduct the business prescribed in Article 59, paragraph (1) or Article 60, paragraph (1);
- (iv) a person that violates the provisions of Article 80, paragraph (1) or Article 155, paragraph (1), in establishing a Financial Instruments Market or in causing another person to conduct transactions on a foreign Financial Instruments Market;
- (iv)-2 a person that, in violation of Article 102-14, provides the Self-Regulatory Services prescribed in Article 84, paragraph (2) without obtaining the authorization of the Prime Minister;
- (v) an officer (including a provisional board member or provisional inspector) or inspector of an Incorporated Association-Operated Financial Instruments Exchange, or a person that is to be the director or company auditor of a Stock Company-Operated Financial Instruments Exchange, that has made a false statement to or suppressed a fact from the Prime Minister, the court or the members of a general meeting with regard to subscription or payment for the total number shares to be issued pursuant to the provisions of Article 101-9, the delivery of property other than money, or the matters set forth in Article 101-9, item (iii);
- (vi) a person that violates the provisions of Article 156-2 in conducting Financial Instruments Debt Assumption Services;
- (vi)-2 a person that, in violation of Article 156-20-16, paragraph (1), engages in collaborative Financial Instruments Debt Assumption Services without obtaining the authorization of the Prime Minister;
- (vii) a person that, in violation of Article 156-24, paragraph (1), engages in business prescribed in Article 156-24, paragraph (1) without obtaining the license of the Prime Minister; or
- (viii) a person that violates an order of the court under Article 192, paragraph (1) or (2).

Article 198-2 (1) The following property is subject to confiscation; provided,

however, that if it is not appropriate to confiscate all or part of that property in light of the circumstances of its acquisition, the progress of a person's performance of the obligation to pay damages, and other circumstances, such property may be exempted from confiscation:

- (i) property obtained through criminal activity in a crime set forth in Article 197, paragraph (1), item (v) or paragraph (2) or Article 197-2, item (xiii); and
  - (ii) property obtained in exchange for property as set forth in the preceding item, or if property as set forth in the preceding item is an Option or other right, property obtained through exercising such rights.
- (2) If property would be confiscated pursuant to the provisions of the preceding paragraph but it is impossible to confiscate it, its value is collected from the offender.

Article 198-3 In the case of a violation of the provisions of Article 38-2 or Article 39, paragraph (1) (including as applied mutatis mutandis pursuant to Article 66-15); Article 41-2, item (ii) or (v); or Article 42-2, item (i), (iii), or (vi), the violating representative, agent, employee, or other worker of a Financial Services Provider or Financial Instruments Intermediary, or the violating Financial Services Provider or Financial Instruments Intermediary, is subject to punishment by imprisonment with required labor for not more than three years, a fine of not more than three million yen, or both.

Article 198-4 A person that violates the provisions of Article 106-10, paragraph (1) or (3) is subject to punishment by imprisonment with required labor for not more than two years, a fine of not more than three million yen, or both.

Article 198-5 If a violation as set forth in one of the following items occurs, the violating representative, agent, employee, or other worker of a Financial Services Provider, etc., Designated Parent Company, Authorized Operator for On-Exchange Transactions, Financial Instruments Intermediary, a Credit Rating Agency, Authorized Financial Instruments Business Association or Certified Financial Instruments Business Association prescribed in Article 78, paragraph (2), a Financial Instruments Exchange, self-regulatory organization prescribed in Article 85, paragraph (1), Financial Instruments Exchange Holding Company, Foreign Financial Instruments Exchange, Financial Instruments Clearing Organization, Foreign Financial Instruments Clearing Organization, Securities Finance Company, or trade repository, or the violating Financial Services Provider or Financial Instruments Intermediary, is subject to punishment by imprisonment with required labor for not more than two years, a fine of not more than three million yen, or both:

- (i) the person violates the provisions of Article 42-4, Article 43-2, paragraph (1)

- or (2), or Article 43-3;
- (ii) the person violates a disposition for the suspension of business activities under Article 52, paragraph (1); Article 53, paragraph (2); Article 57-6, paragraph (1); Article 57-20, paragraph (2); Article 60-8, paragraph (1); Article 66-20, paragraph (1); or Article 66-42, paragraph (1) (excluding a disposition for the suspension of business that is subject to authorization under Article 30, paragraph (1));
- (ii)-2 the person violates an order under Article 57-20, paragraph (1) or (2) or Article 57-21, paragraph (2) (other than a disposition for the suspension of business activities, if it is an order under Article 57-20, paragraph (2));
- (iii) the person violates a disposition that results in a suspension, change, prohibition, or measure (excluding an order to dismiss officers) under Article 74, paragraph (1), a suspension or measure under Article 79-6, a suspension, change, prohibition, or measure under Article 152, paragraph (1) (including as applied mutatis mutandis pursuant to Article 153-4), a change, prohibition, or measure under Article 153-2, a suspension, change, or prohibition under Article 155-10, paragraph (1), a suspension under Article 156-17, paragraph (2) or Article 156-20-14, paragraph (2), a suspension, change, or prohibition under Article 156-20-22, or a suspension under Article 156-32, paragraph (1) or Article 156-83, paragraph (1); or
- (iv) the person violates the provisions of Article 106-28, paragraph (3).

Article 198-6 A person that falls under one of the following items is subject to punishment by imprisonment with required labor for not more than one year, a fine of not more than three million yen, or both:

- (i) a person that makes a false statement or recording in a written application or in an accompanying document or electronic or magnetic record under Article 29-2, paragraphs (1) to (3) inclusive; Article 33-3; Article 59-2, paragraph (1) or (3); Article 60-2, paragraph (1) or (3); Article 66-2; Article 66-28; Article 67-3; Article 81; Article 102-15; Article 106-11; Article 155-2; Article 156-3; Article 156-20-3; Article 156-20-17; Article 156-24, paragraph (2) to (4) inclusive; Article 156-40; or Article 156-68, and submits it;
- (ii) a person that violates the provisions of Article 38, item (i) or Article 66-14, item (i), sub-item (a);
- (iii) a person that fails to prepare or archive a document under Article 46-2 (including as applied mutatis mutandis pursuant to Article 60-6), Article 47, Article 48, Article 66-16, Article 66-37, or Article 188, or that prepares a false document;
- (iv) a person that fails to submit a report, document, or written document under Article 46-3, paragraph (1) (including as applied mutatis mutandis pursuant to Article 60-6); Article 47-2; Article 48-2, paragraph (1); Article 49-

- 3, paragraph (1) (including as applied mutatis mutandis pursuant to Article 60-6); Article 57-3, paragraph (1); Article 57-15, paragraph (1); Article 66-17, paragraph (1); Article 66-38; Article 155-5; Article 156-35; Article 156-57, paragraph (1); or Article 156-79, paragraph (1), or that submits a report, document, or written document containing a false statement;
- (v) a person that fails to make a report under Article 46-3, paragraph (2) (including as applied mutatis mutandis pursuant to Article 60-6); Article 48-2, paragraph (2); Article 49-3, paragraph (2) (including as applied mutatis mutandis pursuant to Article 60-6); Article 57-3, paragraph (2); or Article 57-15, paragraph (2), or that makes a false report;
- (vi) a person that fails to make an explanatory document or written document under Article 46-4; Article 46-6, paragraph (3); Article 47-3; Article 57-4; Article 57-5, paragraph (3); Article 57-16; Article 57-17, paragraph (3); Article 66-17, paragraph (2); or Article 66-18 available for public inspection, or that makes an explanatory document or written document in which the person has entered a false statement available for public inspection;
- (vi)-2 a person that fails to make an explanatory document under Article 66-39 available for public inspection or that makes an explanatory document in which the person has entered a false statement available for public inspection; or a person that fails to make the disclosure under that Article or that makes a false disclosure;
- (vii) a person that fails to make a notification under Article 46-6, paragraph (1); Article 57-5, paragraph (2); Article 57-17, paragraph (2); Article 63, paragraph (2) or (6) (including as applied mutatis mutandis pursuant to Article 63-3, paragraph (2)); or Article 63-3, paragraph (1), or that makes a false notification;
- (viii) a person that fails to make a notification under Article 50-2, paragraph (1) or (7); Article 57-18, paragraph (2); Article 60-7; or Article 66-40, paragraph (1) or (4), or that makes a false notification;
- (ix) a person that fails to issue the public notice under Article 50-2, paragraph (6) or Article 66-40, paragraph (3), or that issues a false public notice;
- (x) a person that fails to make a report or submit materials under Article 56-2, Article 57-10, paragraph (1); Article 57-23; Article 57-26, paragraph (2); Article 60-11; Article 63, paragraph (7); Article 66-22; Article 66-45, paragraph (1); Article 103-4; Article 106-6, paragraph (1); Article 106-16; Article 106-20, paragraph (1); Article 156-5-4; or Article 156-5-8; or that makes a false report or submits false materials;
- (xi) a person that refuses, hinders, or evades an inspection under Article 56-2; Article 57-10, paragraph (1); Article 57-23; Article 57-26, paragraph (2); Article 60-11; Article 63, paragraph (8); Article 66-22; Article 66-45, paragraph (1); Article 75; Article 79-4; Article 103-4; Article 106-6,

- paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (2) of that Article); Article 106-16; Article 106-20, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (2) of that Article); Article 106-27 (including as applied mutatis mutandis pursuant to Article 109); Article 151 (including as applied mutatis mutandis pursuant to Article 153-4); Article 155-9; Article 156-5-4; Article 156-5-8; Article 156-15; Article 156-20-12; Article 156-34; Article 156-80; Article 185-5; or Article 187, item (iv);
- (xi)-2 a person that fails to make a notification under Article 57-2, paragraph (1), or that makes a false notification;
  - (xi)-3 a person that fails to submit a document under Article 57-2, paragraph (2) or (3), or that submits a false document;
  - (xi)-4 a person that fails to make a notification under Article 57-13 or that makes a false notification;
  - (xii) a person that fails to make a report or submit materials under Article 60-11 as applied mutatis mutandis pursuant to Article 60-12, paragraph (3) or Article 56-2, paragraph (1) as applied mutatis mutandis pursuant to Article 65-3, paragraph (3), or a person that makes a false report or submits a false material;
  - (xiii) a person that refuses, hinders, or evaded an inspections under Article 60-11 as applied mutatis mutandis pursuant to Article 60-12, paragraph (3) or Article 56-2, paragraph (1) as applied mutatis mutandis pursuant to Article 65-3, paragraph (3);
  - (xiv) a person that violates an order under Article 63, paragraph (5) (including as applied mutatis mutandis pursuant to Article 63-3, paragraph (2));
  - (xv) a person that violates the provisions of Article 156-46;
  - (xvi) a person that fails to answer a question asked by officials under Article 156-58, that gives a false answer, or that refuses, hinders, or evades inspection;
  - (xvii) a person that violates an order under Article 156-59, paragraph (1);
  - (xvii)-2 a person that fails to prepare or archive a record under Article 156-63, paragraph (1); Article 156-64, paragraph (1); or Article 156-65, paragraph (1) or that prepares a false record;
  - (xvii)-3 a person that fails to make a report or to submit a report, document, or written document under Article 156-63, paragraph (2), Article 156-64, paragraph (2) or Article 156-65, paragraph (2); or a person that submits a report, document, or written document in which the person has entered a false statement;
  - (xviii) a person that fails to make a report under Article 188, or that makes a false report.

Article 199 If there is a failure to make a report or to submit materials under

Article 75; Article 79-4; Article 106-6, paragraph (1) as applied mutatis mutandis pursuant to paragraph (2) of that Article; Article 106-20, paragraph (1) as applied mutatis mutandis pursuant to paragraph (2) of that Article; Article 106-27 (including as applied mutatis mutandis pursuant to Article 109); Article 151 (including as applied mutatis mutandis pursuant to Article 153-4); Article 155-9; Article 156-15; Article 156-20-12; Article 156-34; Article 156-58; or Article 156-80, or if a false report is made or false materials are submitted, the violating representative, agent, employee, or other worker of an Authorized Financial Instruments Business Association, Certified Financial Instruments Business Association as prescribed in Article 78, paragraph (2), Financial Instruments Exchange, self-regulatory organization as prescribed in Article 85, paragraph (1), Financial Instruments Exchange Holding Company, Commodity Exchange, Commodity Exchange Holding Company, Foreign Financial Instruments Exchange, Financial Instruments Clearing Organization, Foreign Financial Instruments Clearing Organization, Securities Finance Company, Designated Dispute Resolution Organization as prescribed in Article 156-38, paragraph (1), or trade repository (hereinafter referred to as "Authorized Financial Instruments Business Association, etc." in this Article); the violating representative, agent, employee, or other worker of the Subsidiary Company of a Financial Instruments Exchange (meaning a Subsidiary Company as prescribed in Article 87-3, paragraph (3); hereinafter the same applies in this Article), Subsidiary Company of a Financial Instruments Exchange Holding Company, Subsidiary Company of a Commodity Exchange, Subsidiary Company of a Commodity Exchange Holding Company; the violating representative, agent, employee, or other worker of the Issuer of Securities listed on a Financial Instruments Exchange or Over-the-Counter Traded Securities, of the Participant in a Foreign Financial Instruments Exchange, of the Financial Instruments Clearing Organization or Clearing Member of a Foreign Financial Instruments Clearing Organization, of a person that has concluded a Contract for Trade Data Collection with a trade repository; or the violating person that has been entrusted with business by an Authorized Financial Instruments Business Association, etc. (if such a person is a corporation, its representative, agent, employee, or other worker) is subject to punishment by imprisonment with required labor for not more than one year, a fine of not more than three million yen, or both.

Article 200 A person that falls under one of the following items is subject to punishment by imprisonment with required labor for not more than one year, a fine of not more than one million yen, or both:

- (i) a person that fails to submit or send copies of a statement and other related documents under Article 6 (including as applied mutatis mutandis pursuant

- to Article 12; Article 23-12, paragraph (1); Article 24, paragraph (7); Article 24-2, paragraph (3); Article 24-4-4, paragraph (5); Article 24-4-5, paragraph (2); Article 24-4-7, paragraph (5); Article 24-5, paragraph (6); and Article 24-6, paragraph (3); as these provisions (excluding Article 24-6, paragraph (3)) are applied mutatis mutandis pursuant to Article 27); Article 24-7, paragraph (4) (including as applied mutatis mutandis pursuant to Article 24-7, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27) and Article 27); Article 27-3, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27-8, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27-13, paragraph (3))); Article 27-11, paragraph (4); Article 27-13, paragraph (3); and Article 27-22-2, paragraphs (2) and (3)); or Article 27-22-2, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (8));
- (ii) a person that fails to submit an amended statement under the first sentence of Article 7; Article 9, paragraph (1); or Article 10, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27);
- (iii) a person that violates the provisions of Article 15, paragraph (2) (including as applied mutatis mutandis pursuant to Article 23-12, paragraph (3), as these provisions are applied mutatis mutandis pursuant to Article 27); Article 15, paragraph (3) or (4) (including as applied mutatis mutandis pursuant to Article 27); Article 27-5 (including as applied mutatis mutandis pursuant to Article 27-8, paragraph (10); Article 27-22-2, paragraphs (2) and (5); and Article 27-22-3, paragraph (5)); or Article 27-13, paragraph (4) or (5) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2));
- (iv) a person that fails to submit an Amended Shelf Registration Statement under the first sentence of Article 23-4; Article 23-9, paragraph (1); or Article 23-10, paragraph (1); or under Article 23-10, paragraph (1) as applied mutatis mutandis pursuant to paragraph (5) of that Article (including as applied mutatis mutandis pursuant to Article 27);
- (v) a person that fails to submit an amended report, Quarterly Report, Semiannual Report, Ad Hoc Report, Parent Company, etc. Status Report, or Report on Repurchases under Article 9, paragraph (1) as applied mutatis mutandis pursuant to Article 24-2, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27); Article 9, paragraph (1) as applied mutatis mutandis pursuant to Article 24-4-5, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27); Article 24-4-7, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24-4-7, paragraph (3) as these provisions are applied mutatis mutandis pursuant to Article 27); Article 9, paragraph (1) or Article 10, paragraph (1) as these provisions are applied mutatis mutandis pursuant to Article 24-4-7,

- paragraph (4) (including as applied mutatis mutandis pursuant to Article 27); Article 24-5, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24-5, paragraph (3) as these provisions are applied mutatis mutandis pursuant to Article 27); Article 24-5, paragraph (4) (including as applied mutatis mutandis pursuant to Article 27); Article 9, paragraph (1) or Article 10, paragraph (1) as these provisions are applied mutatis mutandis pursuant to Article 24-5, paragraph (5) (including as applied mutatis mutandis pursuant to Article 27); Article 24-6, paragraph (1); Article 9, paragraph (1) or Article 10, paragraph (1) as these provisions are applied mutatis mutandis pursuant to Article 24-6, paragraph (2); Article 9, paragraph (1) or Article 10, paragraph (1) as these provisions are applied mutatis mutandis pursuant to Article 24-7, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 24-7, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27) and Article 27); or Article 24-7, paragraph (3) (including as applied mutatis mutandis pursuant to Article 24-7, paragraph (6) (including as applied mutatis mutandis pursuant to Article 27) and Article 27);
- (vi) a person that violates the provisions of Article 25, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27) or Article 27-14, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)) in failing to make copies of a document (other than a document set forth in Article 25, paragraph (1), item (v) or (ix)) available for public inspection;
- (vii) a person that fails to issue the public notice, make the public announcement, or make the disclosure under Article 27-7, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-8, paragraph (12) and Article 27-22-2, paragraphs (2) and (6)); Article 27-8, paragraph (8) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2) and Article 27-22-3, paragraph (4)); Article 27-8, paragraph (11) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); Article 27-10, paragraph (6); or Article 27-13, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2));
- (viii) a person that fails to submit an amended statement under Article 27-8, paragraphs (2) to (4) inclusive (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)) or an amended statement under Article 27-8, paragraph (2) to (4) inclusive as applied mutatis mutandis pursuant to Article 27-13, paragraph (3) and Article 27-22-2, paragraph (7);
- (ix) a person that, in violation of Article 27-9, paragraph (2) or (3) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)), fails to deliver a Tender Offer Explanation or amended Tender Offer Explanation;

- (x) a person that fails to submit Target Company's Position Statement under Article 27-10, paragraph (1) or Tender Offeror's Answer under Article 27-10, paragraph (11);
- (xi) a person that, in sending a copy of a document under Article 27-10, paragraph (9) (including as applied mutatis mutandis pursuant to Article 27-10, paragraph (10)); Article 27-10, paragraph (13) (including as applied mutatis mutandis pursuant to Article 27-10, paragraph (14)); or Article 27-27 (including as applied mutatis mutandis pursuant to Article 27-29, paragraph (2)), sends, as a copy of the original document, a document that contains a false statement about a material particular and whose contents differ from those of the original document;
- (xii) a person that fails to submit an amended report under Article 9, paragraph (1) or Article 10, paragraph (1) as these provisions are applied mutatis mutandis pursuant to Article 27-29, paragraph (1);
- (xii)-2 a person that fails to provide or disclose the Amended Specified Information on Securities under Article 27-31, paragraph (4) in respect of a material particular, or a person that commits a violation of the provisions of Article 27-31, paragraph (5) (limited to the parts involving Amended Specified Information on Securities) in connection with such Amended Specified Information on Securities;
- (xiii) a person that violates an order under Article 32-2, paragraph (1) (including as applied mutatis mutandis pursuant to Article 32-4 and Article 57-26, paragraph (1)) or (3);
- (xiv) a person that violates the provisions of Article 39, paragraph (2) (including as applied mutatis mutandis pursuant to Article 66-15);
- (xv) a person that enters a false statement into a written application or document under Article 39, paragraph (5) (including as applied mutatis mutandis pursuant to Article 66-15) and submits it;
- (xvi) a person that violates the provisions of Article 103-2, paragraph (1) or (4), or Article 106-14, paragraph (1) or (4);
- (xvii) a person that violates the provisions of Article 106-3, paragraph (1) or (4); Article 106-7, paragraph (2); Article 106-17, paragraph (1) or (3); Article 106-21, paragraph (2); Article 156-5-5, paragraph (1) or (4); or Article 156-5-9, paragraph (2);
- (xviii) a person that violates an order under Article 106-7, paragraph (1); Article 106-21, paragraph (1); or Article 156-5-9, paragraph (1);
- (xviii)-2 a person that violates the provisions of Article 156-41, paragraph (1);
- (xix) a person that violates the provisions of Article 167-2;
- (xx) a person that violates the provisions of Article 168; and
- (xxi) a person that violates the provisions of Article 170 or Article 171 in making a representation.

Article 200-2 In the case referred to in item (xiv) of the preceding Article, any economic benefit received by the offender or a third party with knowledge of the circumstances is subject to confiscation. If all or part of an economic benefit cannot be confiscated, an equivalent value is collected.

Article 200-3 (1) If a witness or expert that is sworn in pursuant to the provisions of Article 201, paragraph (1) of the Code of Civil Procedure as applied *mutatis mutandis* pursuant to Article 185, paragraph (2) or Article 185-4, paragraph (3), gives a false statement or presents a false expert opinion, that witness or expert is subject to punishment by imprisonment with required labor for not less than three months but not more than ten years.

(2) If a person committing the crime set forth in the preceding paragraph makes a voluntary confession prior to the completion of administrative hearing proceedings and before the revelation of that crime, the punishment may be reduced or remitted.

Article 201 If a violation as set forth in one of the following items occurs, the violating representative, agent, employee, or other worker of a Financial Services Provider, etc., Financial Institution, person that has obtained permission pursuant to Article 59, Authorized Operator for On-Exchange Transactions, Financial Instruments Intermediary, Authorized Financial Instruments Business Association, Financial Instruments Exchange, self-regulatory organization prescribed in Article 85, paragraph (1), person that has obtained authorization pursuant to Article 106-3, paragraph (1), Financial Instruments Exchange Holding Company, person that has obtained authorization pursuant to Article 106-17, paragraph (1), Commodity Exchange, Commodity Exchange Holding Company, Foreign Financial Instruments Exchange, Financial Instruments Clearing Organization, major shareholder of a Financial Instruments Clearing Organization (meaning a major shareholders as prescribed in Article 156-5-8; hereinafter the same applies in this Article), or Securities Finance Company, or the violating Financial Services Provider, Financial Instruments Intermediary, or major shareholder of a Financial Instruments Clearing Organization, is subject to punishment by imprisonment with required labor for not more than one year, a fine of not more than one million yen, or both:

- (i) the person conducts business prescribed in Article 30, paragraph (1) without obtaining authorization under that paragraph;
- (ii) the person violates conditions attached pursuant to the provisions of Article 30-2, paragraph (1) (including as applied *mutatis mutandis* pursuant to Article 87-2, paragraph (3); Article 87-3, paragraph (5); Article 106-3,

- paragraph (6); Article 106-10, paragraph (5); Article 106-17, paragraph (5); Article 106-24, paragraph (2); Article 155, paragraph (2); Article 156-5-5, paragraph (6); or Article 156-20-16, paragraph (4); Article 59, paragraph (2); Article 60, paragraph (2); Article 85, paragraph (2); or Article 156-6, paragraph (4) (including as applied mutatis mutandis pursuant to Article 156-19, paragraph (4));
- (iii) the person violates the provisions of Article 31, paragraph (6);
  - (iv) the person violates the provisions of Article 31-2, paragraph (5); Article 33, paragraph (1); Article 33-2; Article 41-3 to 41-5 inclusive; Article 42-5; Article 42-6; or Article 66-13;
  - (v) the person conducts Financial Instruments Business or provides the services prescribed in Article 35, paragraph (1) and services other than those set forth in the items of Article 35, paragraph (2), without having obtained approval under Article 35, paragraph (4);
  - (vi) the person violates a disposition for the suspension of business under Article 52, paragraph (1) (limited to the part involving the authorization referred to in Article 30, paragraph (1)) or Article 52-2, paragraph (1);
  - (vii) the person violates the provisions of Article 64, paragraph (2) (including as applied mutatis mutandis pursuant to Article 66-25) in allowing a person to perform the duties of a Sales Representative;
  - (viii) the person violates the provisions of Article 67-7, Article 97, or Article 102-21;
  - (ix) the person entrusts the Self-Regulatory Services prescribed in Article 84, paragraph (2) to a self-regulatory organization prescribed in that paragraph without having obtained authorization from the Prime Minister, in violation of Article 85, paragraph (1);
  - (x) the person violates an order under Article 106-7, paragraph (1) as applied mutatis mutandis pursuant to Article 106-7, paragraph (4), or under Article 106-21, paragraph (1) as applied mutatis mutandis pursuant to Article 106-21, paragraph (4);
  - (xi) the person violates an order under Article 106-28, paragraph (1) (including as applied mutatis mutandis pursuant to Article 109);
  - (xii) the person conducts business other than that prescribed in Article 156-24, paragraph (1) and the items of Article 156-27, paragraph (1) without having obtained approval under Article 156-27, paragraph (3); and
  - (xiii) the person performs an act that is allowed only with the authorization of the Prime Minister pursuant to Article 156-28, paragraph (1), without having obtained that authorization.

Article 202 (1) A person that acts with the aim of paying or receiving the difference in quotations on a Financial Instruments Exchange Market

(including Financial Indicators calculated based on prices or interest rates, etc. of Financial Instruments on a Financial Instruments Exchange Market) other than through a Financial Instruments Exchange Market, is subject to punishment by imprisonment with required labor for not more than one year, a fine of not more than one million yen, or both; provided, however, that this does not preclude the application of the provisions of Article 186 of the Penal Code.

- (2) The provisions of the preceding paragraph do not apply to the following transactions:
- (i) Over-the-Counter Derivatives Transactions wherein one of the parties is a Financial Services Provider (limited to one that engages in Type I Financial Instruments Business as prescribed in Article 28, paragraph (1); hereinafter the same applies in this paragraph) or a bank, Cooperative Financial Institution, or financial institution specified by Cabinet Order as referred to in Article 33, paragraph (1); and
  - (ii) Over-the-Counter Derivatives Transactions for which a Financial Services Provider or a bank, Cooperative Financial Institution, or financial institution specified by Cabinet Order as referred to in Article 33, paragraph (1) conducts intermediation, brokerage, or agency.

- Article 203 (1) If the officer or official of a Financial Services Provider (or the domestic representative or officer stationed at a business office or office it has established domestically, if the Financial Services Provider is a foreign corporation; hereinafter the same applies in this paragraph); the officer or official of an Authorized Financial Instruments Business s Association, Certified Financial Instruments Business Association prescribed in Article 78, paragraph (2), or Financial Instruments Exchange (an officer includes a provisional board member, provisional inspector, provisional director, provisional executive officer, or provisional company auditor); or the domestic representative or official of a Foreign Financial Instruments Exchange (if the Foreign Financial Instruments Exchange has a domestic office, this includes any officer stationed there) accepts a bribe in connection with that person's duties (in the case of the officer or official of a Financial Services Provider, limited to duties involved in the business of a Financial Services Provider is entrusted by an Investor Protection Fund pursuant to the provisions of Article 79-50, paragraph (1)), or requests or promises to do so, that person is subject to punishment by imprisonment with required labor for not more than five years.
- (2) In a case referred to in the preceding paragraph, any bribe that is accepted is subject to confiscation. If all or part of a bribe cannot be confiscated, an equivalent value is collected.
- (3) A person that provides the bribe referred to in paragraph (1) or that offers or

promises to do so is subject to punishment by imprisonment with required labor for not more than three years or by a fine of not more than three million yen.

Article 203-2 (1) The provisions regarding the crimes referred to in paragraph (1) of the preceding Article also apply to a person that commits a crime referred to in that paragraph outside Japan.

(2) A crime referred to in paragraph (3) of the preceding Article is dealt with according to the provisions of Article 2 of the Penal Code.

Article 204 A person that violates the provisions of Article 72 (including as applied mutatis mutandis pursuant to Article 79 or Article 79-14); Article 77-2, paragraph (7) or (8) (including as applied mutatis mutandis pursuant to Article 77-3, paragraph (4); Article 78-7; Article 78-8, paragraph (4); or Article 79-13); Article 79-47; Article 87-8; Article 156-8; Article 156-20-7; or Article 156-70 is subject to punishment by imprisonment with required labor for not more than one year, or a fine of not more than 500 thousand yen.

Article 205 A person that falls under one of the following items is subject to punishment by imprisonment with required labor for not more than six months, a fine of not more than 500 thousand yen, or both:

(i) a person violates the provisions of Article 4, paragraph (4); Article 4, paragraph (6) (including as applied mutatis mutandis pursuant to Article 23-8, paragraph (4)); Article 13, paragraph (4) or (5) (including as applied mutatis mutandis pursuant to Article 23-12, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27) and Article 27); Article 15, paragraph (2) to (4) inclusive as these provisions are applied mutatis mutandis pursuant to Article 15, paragraph (6) (including as applied mutatis mutandis pursuant to Article 23-12, paragraph (3) and including as these provisions are applied mutatis mutandis pursuant to Article 27); Article 23, paragraph (2) (including as applied mutatis mutandis pursuant to Article 23-12, paragraph (5) and including as these provisions are applied mutatis mutandis pursuant to Article 27); Article 23-8, paragraph (3) (including as applied mutatis mutandis pursuant to Article 27); or Article 24-2, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27);

(ii) a person that fails to submit an amended report under Article 27-8, paragraph (2) to (4) inclusive as these provisions are applied mutatis mutandis pursuant to Article 27-10, paragraph (8), or under Article 27-8, paragraph (2) to (4) inclusive as these provisions are applied mutatis mutandis pursuant to Article 27-10, paragraph (12);

(iii) a person that fails to send a copy of a document under Article 27-10,

- paragraph (9) (including as applied mutatis mutandis pursuant to Article 27-10, paragraph (10)); Article 27-10, paragraph (13) (including as applied mutatis mutandis pursuant to Article 27-10, paragraph (14)); or Article 27-27 (including as applied mutatis mutandis pursuant to Article 27-29, paragraph (2));
- (iv) a person that violates the provisions of Article 27-15, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2));
- (v) a person that fails to make a report or submit materials under Article 26 (including as applied mutatis mutandis pursuant to Article 27); Article 27-22, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); Article 27-22, paragraph (2); Article 27-30; Article 27-35; or Article 193-2, paragraph (6), or that makes a false report or submits false materials;
- (vi) a person that refuses, hinders, or evades an inspection under Article 26 (including as applied mutatis mutandis pursuant to Article 27); Article 27-22, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2)); Article 27-22, paragraph (2); Article 27-30, paragraph (1); Article 27-35; or Article 177, item (ii);
- (vi)-2 a person that provides or discloses Foreign Securities Information under Article 27-32-2, paragraph (1) or (2) that contains a false statement about a material particular;
- (vi)-3 a person that, in a Secondary Distribution of Foreign Securities, sells the Securities subject to the Secondary Distribution of Foreign Securities without providing or disclosing the Foreign Securities Information under Article 27-32-2, paragraph (1) in connection with those Secondary Distribution of Foreign Securities;
- (vi)-4 a person that fails to provide or disclose the Foreign Securities Information under Article 27-32-2, paragraph (2);
- (vii) a person that enters a false statement into a written application or accompanying document under Article 30-3, Article 64, paragraph (3) or (4) (including as applied mutatis mutandis pursuant to Article 66-25), or Article 85-2, paragraph (1) or (2) and submits it;
- (viii) a person that, in violation of Article 31-2, paragraph (8), fails to make a deposit;
- (ix) a person that fails to submit a notification or accompanying document under Article 32, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 32-4 and Article 57-26, paragraph (1)), or submits a false notification or accompanying document;
- (ix)-2 a person that fails to make a notification under Article 32, paragraph (3), or that makes a false notification;

- (x) a person that fails to represent a matter prescribed in Article 37, paragraph (1) or Article 66-10, paragraph (1) or that makes a false representation;
- (xi) a person that violates the provisions of Article 37, paragraph (2) or Article 66-10, paragraph (2);
- (xii) a person that violates the provisions of Article 37-3, paragraph (1), Article 37-4, paragraph (1), or Article 37-5, paragraph (1) in failing to deliver a written document, in delivering a written document that does not contain the particulars prescribed in those provisions, or in delivering a written document that contains a false statement; or a person that violates those provisions in providing a person with something that lacks those particulars or with something that contains false particulars by the means prescribed in Article 34-2, paragraph (4) as applied mutatis mutandis pursuant to Article 37-3, paragraph (2); Article 37-4, paragraph (2); or Article 37-5, paragraph (2);
- (xiii) a person that fails to make a notification under Article 37-3, paragraph (3); Article 42-7, paragraph (3); Article 103-2, paragraph (3); Article 106-3, paragraph (3) (including as applied mutatis mutandis pursuant to Article 106-10, paragraph (4) or Article 106-17, paragraph (4)); Article 106-14, paragraph (3); or Article 156-5-5, paragraph (3), or that makes a false notification;
- (xiv) a person that violates the provisions of Article 42-7, paragraph (1) in failing to deliver a report, in delivering a report that does not state the particulars prescribed in that paragraph, or in delivering a report that contains a false statement, or a person that violates such provisions in providing a person with something that lacks those particulars or with false particulars by a means provided for in Article 34-2, paragraph (4) as applied mutatis mutandis pursuant to Article 42-7, paragraph (2);
- (xv) a person that, in violation of the provisions of Article 67-18, makes a false report;
- (xvi) a person that violates the provisions of Article 86, paragraph (2);
- (xvii) a person that fails to submit a statement of holdings in Subject Voting Rights under Article 103-3, paragraph (1); Article 106-15; or Article 156-5-3, paragraph (1), or that submits a statement of holdings in Subject Voting Rights containing a false statement;
- (xviii) a person that violates the Cabinet Office Ordinance under Article 161, paragraph (1) (including as applied mutatis mutandis pursuant to Article 161, paragraph (2));
- (xix) a person that violates the provisions of Article 163 or Article 165-2, paragraph (1) or (2) in failing to submit a written report or in submitting a written report containing a false statement, or in making a false filing in a filing under Article 164, paragraph (5) or Article 165-2, paragraph (10); or

(xx) a person that violates the provisions of Article 165; Article 165-2, paragraph (15); or Article 169.

Article 205-2 A person that fails to prepare or archive the records under Article 156-48 or Article 156-50, paragraph (9), or prepares a false record is subject to punishment by a fine of not more than one million yen.

Article 205-2-2 A person that falls under one of the following items is subject to punishment by a fine of not more than 500 thousand yen:

- (i) a person that discontinues Financial Instruments Debt Assumption Services without obtaining the authorization referred to in Article 156-20-15;
- (ii) a person that suspends or discontinues all or part of Dispute Resolution Services (meaning the Dispute Resolution Services prescribed in Article 156-38, paragraph (11)) without obtaining the authorization referred to in Article 156-60, paragraph (1); or
- (iii) a person that suspends or discontinues all or part of trade repository services without obtaining the authorization referred to in Article 156-82, paragraph (1).

Article 205-2-3 A person that falls under one of the following items is subject to punishment by a fine of not more than 300 thousand yen:

- (i) a person that fails to make a notification under Article 31, paragraph (1) or (3); Article 32-3, paragraph (1) (including as applied mutatis mutandis pursuant to Article 32-4 or Article 57-26, paragraph (1)) or paragraph (2); Article 33-6, paragraph (1) or (3); Article 35, paragraph (3) or (6); Article 50, paragraph (1); Article 57-2, paragraph (4) or (6); Article 57-14; Article 57-18, paragraph (1); Article 60-5; Article 63, paragraph (3); Article 63-2, paragraph (2); Article 63-2, paragraph (3) (including as applied mutatis mutandis pursuant to Article 63-3, paragraph (2)) or paragraph (4); Article 64-4 (including as applied mutatis mutandis pursuant to Article 66-25); Article 66-5, paragraph (1) or (3); Article 66-19, paragraph (1); Article 66-31, paragraph (1) or (3); Article 79-27, paragraph (4); Article 106-3, paragraph (5) (including as applied mutatis mutandis pursuant to Article 106-10, paragraph (4) or Article 106-17, paragraph (4)); Article 156-5-5, paragraph (5); Article 156-55, paragraph (1); Article 156-56; Article 156-60, paragraph (2); or Article 156-82, paragraph (2), or a person that makes a false notification;
- (ii) a person that violates the provisions of Article 31-3; Article 43-4, paragraph (1); Article 66-6; or Article 194;
- (iii) a person that violates the provisions of Article 36-2, paragraph (1) or Article 66-8, paragraph (1);

- (iv) a person that, in violation of Article 36-2, paragraph (2) or Article 66-8, paragraph (2), posts a sign under Article 36-2, paragraph (1) or Article 66-8, paragraph (1) or a sign that is similar to one of these;
- (v) a person that violates an order under Article 46-3, paragraph (3) (including as applied mutatis mutandis pursuant to Article 60-6); Article 48-2, paragraph (3); Article 57-3, paragraph (3); or Article 57-15, paragraph (3);
- (vi) a person that, in violation of Article 955, paragraph (1) of the Companies Act as applied mutatis mutandis pursuant to Article 50-2, paragraph (10) or Article 66-40, paragraph (6), fails to enter or record the matters specified by Ordinance of the Ministry of Justice with regard to the electronic public notice investigation specified in that paragraph in the Investigation Record Book, etc. (meaning an Investigation Record Book, etc. as prescribed in Article 955, paragraph (1) of the Companies Act; hereinafter the same applies in this item), that enters or records a false statement, or that, in violation of that paragraph, fails to archive an Investigation Record Book, etc.;
- (vii) a person that violates the provisions of Article 56-4, paragraph (3) or (4);
- (vii)-2 a person that fails to submit a document under Article 57-2, paragraph (5), or that submits a false document;
- (viii) a person that violates the provisions of the second sentence of Article 79-3, paragraph (1);
- (ix) a person that fails to make a report under Article 79-16 or Article 156-45, paragraph (1), or that makes a false report;
- (x) a person that enters a false statement in a written application or accompanying document under Article 79-30 and submits it;
- (xi) a person that fails to make a report or submit materials under Article 79-52, paragraph (2), or that makes a false report or submits false materials;
- (xii) a person that, in violation of Article 79-53, paragraph (1); Article 156-60, paragraph (3); Article 156-61, paragraph (3); or Article 156-82, paragraph (2), fails to notify the relevant person or that notifies the relevant person falsely;
- (xiii) a person that fails to make a report or submit materials under Article 79-77, or that makes a false report or submits false materials; or
- (xiv) a person that refuses, hinders, or evades an inspection under Article 79-77.

Article 205-3 A person that falls under one of the following items is subject to punishment by a fine of not more than 200 thousand yen:

- (i) a person that, in violation of a disposition under Article 177, item (i) to which a person concerned in the relevant case or a witness is subject, fails to give a statement, gives a false statement, fails to give a report, or gives a false report;

- (ii) a person that, in violation of a disposition under Article 185, paragraph (1) to which a witness is subject, fails to appear, fails to give a statement, or gives a false statement;
- (iii) a person that, in violation of an order under Article 201, paragraph (1) of the Code of Civil Procedure as applied mutatis mutandis pursuant to Article 185, paragraph (2) or Article 185-4, paragraph (3) to which a witness or expert is subject, fails to swear under oath;
- (iv) a person that, in violation of a disposition under Article 185-3, paragraph (2) to which the person in possession of an article is subject, fails to submit the article; or
- (v) a person that, in violation of a disposition under Article 185-4, paragraph (1) to which an expert is subject, fails to present an expert opinion, or presents a false expert opinion.

Article 206 If a violation as set forth in one of the following items occurs, the violating representative, agent, employee, or other worker of an Authorized Financial Instruments Business Association, Certified Financial Instruments Business Association as prescribed in Article 78, paragraph (2), Investor Protection Fund, Financial Instruments Exchange, self-regulatory organization as prescribed in Article 85, paragraph (1), Financial Instruments Exchange Holding Company, Parent Commodity Exchange, etc. as prescribed in Article 102-3, paragraph (1), Foreign Financial Instruments Exchange, Financial Instruments Clearing Organization, Foreign Financial Instruments Clearing Organization, Securities Finance Company, or trade repository is subject to punishment by a fine of not more than 300 thousand yen:

- (i) the person violates the provisions of Article 64-7, paragraph (4) (including as applied mutatis mutandis pursuant to Article 66-25); Article 67-8, paragraph (2); Article 67-12; Article 87-2, paragraph (1); Article 87-3, paragraph (1); Article 105, paragraph (1); Article 106-24, paragraph (1); Article 149, paragraph (1) (including as applied mutatis mutandis pursuant to Article 153-4); or Article 156-12-3, paragraph (1);
- (ii) the person fails to make a notification under the first sentence of Article 67-8, paragraph (3); Article 67-13; Article 121; Article 126, paragraph (1); the first sentence of Article 149, paragraph (2) (including as applied mutatis mutandis pursuant to Article 153-4); Article 153-3; or Article 155-7, or that makes a false notification;
- (iii) the person violates an order under Article 67-14 or Article 125;
- (iv) the person violates an order under Article 67-15, paragraph (1); Article 67-17, paragraph (1); Article 127, paragraph (1); or Article 129, paragraph (1);
- (v) the person, in violation of Article 79-55, paragraph (4) or Article 79-59, paragraph (5), fails to report or gives a false report;

- (vi) the person violates the provisions of Article 122, paragraph (1) (including as applied mutatis mutandis pursuant to Article 123, paragraph (1) or (2)) or Article 124, paragraph (1) or (3) in effecting a listing;
- (vii) the person violates the provisions of Article 126, paragraph (2) in effecting a delisting;
- (viii) the person fails to make a notification under Article 156-6, paragraph (3); Article 156-13; or Article 156-19, paragraph (3), or makes a false notification;
- (ix) the person violates the provisions of Article 156-12; Article 156-20-10; or Article 156-20-21, paragraph (1);
- (ix)-2 the person fails to make a notification under Article 156-20-11 or Article 156-20-21, paragraph (2) or (3), or makes a false notification;
- (x) the person fails to make a notification under Article 156-27, paragraph (2) or Article 156-28, paragraph (2) or (3), or makes a false notification;
- (xi) the person fails to make a notification under Article 156-72, paragraph (2); Article 156-77, paragraph (1); or Article 156-78, or makes a false notification; or
- (xii) the person, in violation of the provisions of Article 156-74, paragraph (1), fails to prescribe Operational Rules, fails to obtain the authorization of the Prime Minister for them, or changes the Operational Rules without obtaining the authorization of the Prime Minister.

Article 207 (1) If the representative of a corporation (including an organization without legal personality for which a representative or administrator has been designated; hereinafter the same applies in this paragraph and the following paragraph) or the agent, employee, or other worker of a corporation or individual violates the provisions set forth in one of the following items in connection with the business or property of the corporation or individual, in addition to the offender being subject to punishment, the corporation is subject to punishment by the fine prescribed in the relevant item and the individual is subject to punishment by the fine prescribed in the provisions referred to in the relevant item:

- (i) Article 197: a fine of not more than 700 million yen;
- (ii) Article 197-2 (excluding items (xi) and (xii)): a fine of not more than 500 million yen;
- (iii) Article 198, item (viii) or Article 198-3 to Article 198-5 inclusive: a fine of not more than 300 million yen;
- (iv) Article 198-6 (excluding items (viii), (ix), (xii), (xiii), and (xv)) or Article 199: a fine of not more than 200 million yen;
- (v) Article 200 (excluding items (xvii), (xviii)-2, and (xix)) or Article 201, item (i), (ii), (iv), (vi), or (ix) to (xi): a fine of not more than 100 million yen; and
- (vi) Article 198 (excluding items (v) and (viii)); Article 198-6, item (viii), (ix),

- (xii), (xiii), or (xv); Article 200, item (xvii), (xviii)-2, or (xix); Article 201 (excluding items (i), (ii), (iv), (vi), and (ix) to (xi) inclusive); Article 205 to 205-2 inclusive; Article 205-2-3 (excluding items (xiii) and (xiv)); or the preceding Article (excluding item (v)): the fine prescribed in each Article.
- (2) The period of prescription for punishing a corporation or individual by a fine due to a violation referred to in Article 197 or Article 197-2 (excluding items (xi) and (xii)) pursuant to the provisions of the preceding paragraph, depends on the period of prescription for the crime referred to in the relevant provisions.
- (3) If an organization other than a corporation is to be punished pursuant to the provisions of paragraph (1), the representative or administrator of that organization represents it with regard to procedural acts, and the provisions of laws on criminal proceedings that have a corporation as the defendant or suspect apply *mutatis mutandis*.

Article 207-2 If the person provided for in Article 197-2, item (xii); Article 198, item (v); or Article 203, paragraph (1) is a corporation, these provisions apply to the violating director or executive officer, or to the violating officer or manager that performs those duties.

Article 207-3 In the following cases, the officer (which includes a provisional board member, provisional auditor, provisional director, provisional accounting advisor, provisional company auditor, or provisional executive officer) of an Authorized Financial Instruments Business Association, Financial Instruments Exchange, self-regulatory organization as prescribed in Article 85, paragraph (1), or Financial Instruments Exchange Holding Company is subject to punishment by a non-criminal fine of not more than one million yen:

- (i) the officer violates an order under Article 73 or Article 153 (including as applied *mutatis mutandis* pursuant to Article 153-4);
- (ii) the officer fails to report the amount of capital reserves prescribed in Article 101-8;
- (iii) the officer fails to issue a notice under Article 101-10, paragraph (1) or (4);
- (iv) the officer fails to make a registration under Article 101-20, paragraph (1);
- (v) the officer violates the provisions of Article 102-31, paragraph (1) or Article 105-16, paragraph (1) in failing to keep minutes;
- (vi) the officer violates the provisions of Article 105-5, paragraph (1) in failing to select a majority of the members of the self-regulatory committee from among outside directors; or
- (vii) the officer fails to make the list of names under Article 105-18 available for public inspection.

Article 207-4 A person that falls under one of the following items is subject to

punishment by a non-criminal fine of not more than one million yen:

- (i) a person that, in violation of the provisions of Article 941 of the Companies Act as applied mutatis mutandis pursuant to Article 50-2, paragraph (10) and Article 66-40, paragraph (6), fails to request the investigation referred to in Article 941 of the Companies Act;
- (ii) a person that, in violation of the provisions of Article 946, paragraph (3) of the Companies Act as applied mutatis mutandis pursuant to Article 50-2, paragraph (10) and Article 66-40, paragraph (6), fails to give a report or gives a false report;
- (iii) a person that refuses a request set forth in one of the items of Article 951, paragraph (2) or Article 955, paragraph (2) of the Companies Act as these provisions are applied mutatis mutandis pursuant to Article 50-2, paragraph (10) and Article 66-40, paragraph (6), without just cause; or
- (iv) a person that refuses to allow the inspection or copying under Article 102-31, paragraph (2) or Article 105-16, paragraph (2) or (3) (including as applied mutatis mutandis pursuant to Article 105-16, paragraph (4)), without just cause.

Article 208 In one of the following cases, an Issuer of Securities; the representative or officer of a Financial Services Provider etc. Specified Major Shareholder of a Financial Services Provider, Designated Parent Company, or Financial Instruments Intermediary; a Financial Services Provider, Specified Major Shareholder of a Financial Services Provider, Financial Instruments Intermediary, Financial Services Provider that is a foreign corporation; a person that has obtained permission under Article 59, the domestic representative of an Authorized Operator for On-Exchange Transactions; the officer of a Credit Rating Agency (including the representative or administrator of an organization without legal personality for which a representative or administrator has been designated); the domestic representative of a Credit Rating Agency that is a foreign corporation (including an organization without legal personality for which a representative or administrator has been designated), the officer (including a provisional board member) or the former representative of an Authorized Financial Instruments Business Association or Certified Financial Instruments Business Association as prescribed in Article 78, paragraph (2); the officer (this includes a provisional board member or provisional inspector) or liquidator of an Investor Protection Fund; the officer (this includes a provisional board member or provisional executive officer), former representative, or liquidator of a Financial Instruments Exchange or self-regulatory organization as prescribed in Article 85, paragraph (1); the domestic representative or former domestic representative of a Foreign Financial Instruments Exchange; the representative or officer of a Financial

Instruments Clearing Organization; the domestic representative of a Foreign Financial Instruments Clearing Organization; the representative or officer of a Securities Finance Company; the officer of a Designated Dispute Resolution Organization provided for in Article 156-38, paragraph (1) (including the representative or administrator of an organization without legal personality for which a representative or administrator has been designated); or the officer of a trade repository (including the representative or administrator of an organization without legal personality for which a representative or administrator has been designated) is subject to punishment by a non-criminal fine of not more than 300 thousand yen:

- (i) the person violates the provisions of Article 4, paragraph (5) (including as applied mutatis mutandis pursuant to Article 23-8, paragraph (4)); Article 44-4 (including as applied mutatis mutandis pursuant to Article 59-6); Article 79-26, paragraph (2); Article 79-73; Article 119, paragraph (1) or (4); or Article 161-2, paragraph (1);
- (ii) the person fails to submit a Confirmation Letter under Article 24-4-2, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (3) (including as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (4)) or Article 24-4-2, paragraph (4) as these provisions are applied mutatis mutandis pursuant to Article 27) or an amended Confirmation Letter under Article 9, paragraph (1) or Article 10, paragraph (1) as these provisions are applied mutatis mutandis through the replacement of certain terms pursuant to Article 24-4-3, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27);
- (iii) the person, in violation of an order under Article 31-2, paragraph (4), fails to make a deposit;
- (iv) the person, in violation of Article 31-4, paragraph (1) or (2); Article 64-7, paragraph (5) (including as applied mutatis mutandis pursuant to Article 66-25); the second sentence of Article 67-8, paragraph (3); Article 67-16; Article 77-6, paragraph (3); Article 105, paragraph (2); Article 120; Article 128; Article 134, paragraph (2); Article 135, paragraph (2); the second sentence of Article 149, paragraph (2) (including as applied mutatis mutandis pursuant to Article 153-4); Article 155-8, paragraph (2); or Article 156-12-3, paragraph (2), fails to notify;
- (v) the person violates an order under Article 32-2, paragraph (2); Article 51; Article 51-2; Article 53, paragraph (1); Article 57-6, paragraph (1); Article 57-19; Article 57-21, paragraph (1) or (4); Article 60-8, paragraph (1); Article 66-20, paragraph (1); Article 66-41; Article 79-37, paragraph (5); Article 79-75; Article 156-16; Article 156-20-13; Article 156-33, paragraph (1); or Article 156-81 (if this is an order under Article 57-6, paragraph (1); Article 60-8, paragraph (1); or Article 66-20, paragraph (1), it excludes a disposition for

- the suspension of business);
- (vi) the person violates the provisions of Article 40-2, paragraph (4) or (5) in not delivering a document;
  - (vii) the person violates the provisions of Article 46-5; Article 48-3; or Article 49-4 in not laying aside reserve funds or in using them;
  - (viii) the person, in violation of Article 49-5 or an order under Article 56-3, does not keep the assets in Japan;
  - (ix) the person, in violation of Article 67-18 or Article 78-3, fails to report;
  - (x) the person, in violation of Article 67-19, Article 78-4, or Article 130, fails to notify or to disclose;
  - (xi) the person, in violation of Article 67-20; Article 78-5; Article 79-41, paragraph (3); Article 79-53, paragraph (2); or Article 131, fails to report or gives a false report;
  - (xii) the person fails to make the list of names under Article 68, paragraph (6); Article 78-2, paragraph (2); or Article 156-53 available for public inspection;
  - (xiii) the person fails to obtain authorization, in a case that requires the person to obtain the authorization of the Prime Minister and the Minister of Finance pursuant to the provisions of Chapter IV-2;
  - (xiv) the person does not file a notification under Article 79-34, paragraph (3) or files a false notification;
  - (xv) the person conducts business other than that prescribed in Article 79-49;
  - (xvi) the person fails to submit a document provided for in Article 79-70, paragraph (1) or (2), or submits a false document;
  - (xvii) the person violates the provisions of Article 79-71 in its accounting;
  - (xviii) the person violates the provisions Article 79-80, paragraph (1) in disposing of the residual assets of an Investor Protection Fund;
  - (xix) the person makes a false statement or suppresses a fact from the members of an organizational meeting or of a general meeting of the members of a Financial Instruments Incorporated Association;
  - (xx) the person violates the provisions of Article 88-11 (including as applied mutatis mutandis pursuant to Article 102-6); Article 101-3, paragraph (1); Article 101-5, paragraph (1); Article 139-3, paragraph (1); Article 139-4, paragraph (1) or (8); Article 139-5, paragraph (1); Article 139-6, paragraph (4); Article 139-7, paragraph (1); Article 139-13, paragraph (2); Article 139-14, paragraph (1); or Article 139-21, paragraph (2) in failing to keep a document, written document, or electronic or magnetic record specified in those provisions or in entering or recording a false statement in it;
  - (xxi) the person, in violation of Article 100-12, paragraph (1) or (2) (including as applied mutatis mutandis pursuant to Article 102-36); Article 100-14, paragraph (1) (including as applied mutatis mutandis pursuant to Article 102-36); Article 101-4, paragraph (2) (including as applied mutatis mutandis

- pursuant to Article 139-3, paragraph (5); Article 139-4, paragraph (4); or Article 139-5, paragraph (5)); Article 139-3, paragraph (9); Article 139-10, paragraph (1); Article 139-12, paragraph (2) (including as applied mutatis mutandis pursuant to Article 139-19); or Article 139-16, paragraph (1); or the provisions of the Companies Act as applied mutatis mutandis pursuant to this Act, fails to issue a public notice or notice, or issues a false public notice or notice;
- (xxii) the person, in violation of Article 100-7, paragraph (2) or Article 100-14, paragraph (1) (including as applied mutatis mutandis pursuant to Article 102-36), fails to file a petition to commence bankruptcy proceedings;
- (xxiii) the person violates Article 664 of the Companies Act as applied mutatis mutandis pursuant to Article 100-17, paragraph (1) of this Act in distributing the assets of a Financial Instruments Incorporated Association;
- (xxiv) the person violates the provisions of Article 101-2 in implementing procedures for Organizational Conversion;
- (xxv) the person, in violation of Article 101-3, paragraph (2); Article 101-5, paragraph (2); Article 139-3, paragraph (2); Article 139-4, paragraph (9); Article 139-5, paragraph (2); Article 139-6, paragraph (5); Article 139-7, paragraph (2); Article 139-13, paragraph (3); Article 139-14, paragraph (2); or Article 139-21, paragraph (3), refuses to allow the inspection of a document or something that shows the particulars that have been recorded in an electronic or magnetic record through a means specified by Cabinet Office Ordinance, to issue a certified copy or extract, to provide a person with the particulars that have been recorded in electronic or magnetic records by electronic or magnetic means, or to issue a written document that states those particulars, without justifiable grounds for refusing to do so;
- (xxvi) the person violates the provisions of Article 101-4 (including as applied mutatis mutandis pursuant to Article 139-3, paragraph (5), Article 139-4, paragraph (4), and Article 139-5, paragraph (5)), or Article 139-12 (including as applied mutatis mutandis pursuant to Article 139-19) in conducting an Organizational Conversion or merger of an Incorporated Association-Operated Financial Instruments Exchange;
- (xxvi)-2 the person fails to make the disclosure under Article 156-66, paragraph (2) or makes a false disclosure;
- (xxvi)-3 the person, in violation of the provisions of Article 156-69, becomes the representative of a corporation, engages in the day-to-day business of a corporation, or conducts the relevant business, without obtaining the authorization of the Prime Minister; or
- (xxvii) the person fails to make a registration (excluding one under Article 101-20, paragraph (1)) provided for by this Act.

Article 208-2 A person that falls under one of the following items is subject to punishment by a non-criminal fine of not more than 300 thousand yen:

- (i) a person that violates the provisions of Article 79-23, paragraph (2);
- (ii) a person that violates the provisions of Article 162, paragraph (1) (including as applied mutatis mutandis pursuant to Article 162, paragraph (2));
- (iii) a person that violates the Cabinet Office Ordinance under Article 162-2;
- (iv) a person that violates the provisions of Article 193-3, paragraph (1);
- (v) a person that, in violation of the provisions of Article 193-3, paragraph (2), fails to submit an opinion or submits a false opinion; or
- (vi) a person that, in violation of the provisions of Article 193-3, paragraph (3), fails to notify the relevant persons or falsely notifies them.

Article 208-3 A person that violates the provisions of Article 88, paragraph (3) is subject to punishment by a non-criminal fine of not more than 200 thousand yen.

Article 209 A person that falls under one of the following items is subject to punishment by a non-criminal fine of not more than 100 thousand yen:

- (i) a person that violates the provisions of Article 23-13, paragraph (1), (3), or (4) (including as applied mutatis mutandis pursuant to Article 27);
- (ii) a person that, in violation of the provisions of Article 23-13, paragraph (2) or (5) (including as applied mutatis mutandis pursuant to Article 27), fails to deliver a written document;
- (iii) a person that fails to submit the copy of a Confirmation Letter under Article 6 as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (5) (including as applied mutatis mutandis pursuant to Article 24-4-8, paragraph (1) and Article 24-5-2, paragraph (1), and including as these provisions are applied mutatis mutandis pursuant to Article 27) or the copy of an amended Confirmation Letter under Article 6 as applied mutatis mutandis pursuant to Article 24-4-3, paragraph (2) (including as applied mutatis mutandis pursuant to Article 24-4-8, paragraph (2) and Article 24-5-2, paragraph (2), and including as these provisions are applied mutatis mutandis pursuant to Article 27);
- (iv) a person that fails to submit a Confirmation Letter under Article 24-4-2, paragraph (1) (including as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (3) (including as applied mutatis mutandis pursuant to Article 24-4-2, paragraph (4)) and Article 24-4-2, paragraph (4), and including as these provisions are applied mutatis mutandis pursuant to Article 27) as applied mutatis mutandis pursuant to Article 24-4-8, paragraph (1) or Article 24-5-2, paragraph (1) (including as applied mutatis

- mutandis pursuant to Article 27) or an amended Confirmation Letter under Article 9, paragraph (1) or Article 10, paragraph (1) as these provisions are applied mutatis mutandis through the replacement of certain terms pursuant to Article 24-4-3, paragraph (1) (including as applied mutatis mutandis pursuant to Article 27) as applied mutatis mutandis pursuant to Article 24-4-8, paragraph (2) or Article 24-5-2, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27);
- (v) a person that violates the provisions of Article 25, paragraph (2) (including as applied mutatis mutandis pursuant to Article 27), in failing to make a copy of a document (limited to a document set forth in Article 25, paragraph (1), item (v) or (ix)) available for public inspection;
  - (vi) a person that, in violation of Article 27-24, fails to deliver a written notice, delivers a written notice in which the person has failed to state the particulars prescribed in Article 27-24, or delivers a written notice in which the person has entered a false statement with regard to those particulars;
  - (vi)-2 a person that violates the provisions of Article 40-5, paragraph (1);
  - (vii) a person that violates an order under Article 60-4, paragraph (2); Article 65, paragraph (2); or Article 66-46, paragraph (2);
  - (viii) a person that fails to make a notification under Article 62, paragraph (1) or (3) or Article 79-10, paragraph (1), or that makes a false notification;
  - (ix) a person that fails to make a report or submit materials under Article 62, paragraph (2) or Article 189, paragraph (1), or that makes a false report or submits false materials;
  - (x) a person that violates the provisions of Article 79-15, Article 156-54 or Article 156-76;
  - (xi) a person that, in violation of a disposition under Article 187, item (i) to which a person concerned in the relevant case or a witness is subject, fails to appear, fails to give a statement, gives a false statement, fails to give a report, or gives a false report;
  - (xii) a person that, in violation of a disposition under Article 187, item (ii) to which an expert is subject, fails to appear, fails to present an expert opinion, or presents a false expert opinion; or
  - (xiii) a person that, in violation of a disposition under Article 187, item (iii) to which the person in possession of an article is subject, fails to submit the relevant article.

## **Chapter IX Investigations in Criminal Cases**

(Questioning, Examination, Retention, etc.)

Article 210 (1) An official of the Securities and Exchange Surveillance Commission (hereinafter referred to as the "Commission" in this Chapter)

(such an official is referred to as a "Commission Official" hereinafter in this Chapter) may request a suspect or witness in a criminal case (meaning the case connected with a crime set forth in the preceding Chapter, which is specified by Cabinet Order as a crime that is detrimental to the fairness of purchase and sales or other transactions of Securities or Derivatives Transactions, etc.; hereinafter the same applies in this Chapter) (such a suspect or witness is referred to as a "Suspect, etc. in a Criminal Case" hereinafter in this paragraph) to appear and may question a Suspect, etc. in a Criminal Case, examine articles in the possession of or discarded by a Suspect, etc. in a Criminal Case, or retain articles that a Suspect, etc. in a Criminal Case voluntarily submits or discards, if this is necessary for the investigation in a criminal case.

- (2) A Commission Official may inquire with public agencies or public or private organizations for the investigation in a criminal case, and may request them to report the necessary particulars.

(Inspection, Search, and Seizure)

- Article 211 (1) If it is necessary in the investigation of a criminal case, a Commission Official may effect an inspection, search, or seizure in accordance with a warrant issued in advance by the judge of the district court or summary court that has jurisdiction over the locality of the Commission.
- (2) In the case referred to in the preceding paragraph, in case of urgency, a Commission Official may take the measures referred to in that paragraph with a warrant issued in advance by the judge of the district court or summary court that has jurisdiction over the locality of the place to be inspected; the place, person, or article to be searched; or the article to be seized.
- (3) In requesting a warrant as referred to in paragraph (1) or the preceding paragraph (hereinafter referred to as a "Warrant" in this Chapter), a Commission Official must submit materials allowing it to be found that there is a criminal case.
- (4) If the request referred to in the preceding paragraph is filed, the judge of the district court or summary court must issue a Warrant to a Commission Official which states the place to be inspected, the place, person, or article to be searched, or the article to be seized; states the government position and name of the requester; states the valid period; gives the indication that the Warrant may not be executed and must be returned after the valid period ends; states the date of issuance and the name of the court; and bears the judge's name and seal. In such a case, if the name of the suspect in the criminal case or the facts of the criminal offense are clear, these particulars must also be entered in the Warrant.
- (5) A Commission Official may deliver a Warrant to another Commission Official

and have that official execute the inspection, search, or seizure.

(Seizure against a Person That Handles Communications)

Article 211-2 (1) If it is necessary for the investigation in a criminal case, a Commission Official may be issued a Warrant to seize official papers regarding postal items, correspondence, or telegrams sent from or addressed to a suspect in a criminal case, which, based on the provisions of laws and regulations, are stored by or in the possession of a person handling communications.

(2) In respect of official papers regarding postal items, correspondence, or telegrams that do not fall under the preceding paragraph, which, based on the provisions of laws and regulations, are stored by or in the possession of a person handling communications, a Commission Official may be issued a Warrant to seize only those official papers for which there are sufficient circumstances to find a relationship with the criminal case.

(3) Upon taking the measures under one of the preceding two paragraphs, a Commission Official must notify the sender or recipient of this; provided, however, that this does not apply if notifying the sender or recipient could hinder the investigation in the criminal case.

(Restriction on the Execution of an Inspection, Search, or Seizure at Night)

Article 212 (1) It is prohibited for an inspection, search, or seizure to be executed between sunset and sunrise unless the Warrant indicates that the inspection, search, or seizure may be executed at night.

(2) An official inspection, search, or seizure that begins before sunset may be continued after sunset, if this is found to be necessary.

(Showing a Warrant)

Article 213 The Warrant for an inspection, search, or seizure must be shown to the person subject to these measures.

(Proof of Identity)

Article 214 When carrying out questioning or when effecting an examination, retention, inspection, search, or seizure pursuant to the provisions of this Chapter, a Commission Official must carry a card that identifies that official and show it if requested by any person concerned.

(Necessary Measures at the Time of Inspection, Search, or Seizure)

Article 215 (1) If it is necessary in order to effect an inspection, search, or seizure, a Commission Official may release a lock, open a seal, or take other necessary measures.

(2) The measures referred to in the preceding paragraph may also be taken with

respect to retained articles or seized articles.

(Prohibiting Entrance and Exit During Measures)

Article 216 While carrying out questioning or effecting an examination, retention, inspection, search, or seizure pursuant to the provisions of this Chapter, a Commission Official may prohibit any person from entering or exiting the place without permission.

(Presence of the Person In Charge)

Article 217 (1) When executing an inspection, search, or seizure at a person's dwelling or at a residence, building, or other place that a person watches over, a Commission Official must have the owner or manager (these persons include the representative, agent, or other person that may act on the owner's or manager's behalf) or the employee or co-habiting adult relative of the owner or manager, present.

(2) In the case referred to in the preceding paragraph, if it is impossible to have one of the persons prescribed in that paragraph present, a Commission Official must have the adult neighbor of such a person, or another police official or official of the local government, present.

(3) When searching a female, a Commission Official must have an adult female present; provided, however, that this does not apply in cases requiring urgency.

(Assistance of Police Officials)

Article 218 A Commission Official may request the assistance of police officials, if this is necessary at the time the Commission Official effects an inspection, search, or seizure.

(Preparation of a Record)

Article 219 Upon carrying out questioning or effecting an examination, retention, inspection, search, or seizure pursuant to the provisions of this Chapter, a Commission Official must prepare a record of this, show it to the person the official questioned or to a person that was present, and sign and seal it, as well as having such persons sign and seal it; provided, however, that if the person that was questioned or the person that was present will not or cannot sign and seal the record, it is sufficient to append a note of this.

(Retention Inventory and Seizure Inventory)

Article 220 Upon effecting a retention or seizure, a Commission Official must prepare an inventory and issue a certified copy of this to the owner or person in possession of the retained article or seized article or to any other person that may act on their behalf.

(Handling of Retained Articles and Seized Articles)

Article 221 A Commission Official may collect a storage certificate and have the owner or person in possession of a retained article or seized article that is inconvenient to transport or store, or any other person that the Commission Official finds to be appropriate, store that article, with the consent of the person in question.

(Return of Retained Articles and Seized Articles)

- Article 222 (1) If it becomes unnecessary to keep a retained article or seized article, the Commission must return it to the person that should receive it.
- (2) If the Commission is unable to return a retained article or seized article as referred to in the preceding paragraph because the address or residence of the person that should receive it is unknown or for any other reason, the Commission must issue public notice of this.
- (3) If no request is filed for the return of the retained article or seized article to which the public notice referred to in the preceding paragraph pertains after six months have elapsed since the day of the public notice, the article vests in the national treasury.

(Reporting to the Commission)

Article 223 Upon completing an investigation in a criminal case, a Commission Official must report the results of the investigation to the Commission.

(Investigation in a Criminal Case by a Finance Bureau Official)

- Article 224 (1) With the approval of the Commission, the Director-General of a Local Finance Bureau or Director-General of a Local Finance Branch Bureau is to designate persons in charge of investigations in criminal cases from among the officials of the local finance bureau or local finance branch bureau.
- (2) A person designated by the Director-General of a Local Finance Bureau or Director-General of a Local Finance Branch Bureau pursuant to the provisions of the preceding paragraph (hereinafter referred to as the "Official of the Local Finance Bureau, etc." in this Chapter) is deemed to be a Commission Official, and the provisions of Article 210 to the preceding Article inclusive apply. In this case, in Article 211, the term "the Commission" is deemed to be replaced with "the local finance bureau or local finance branch bureau to which the official belongs", and in the preceding two Articles, the term "the Commission" is deemed to be replaced with "the Director-General of a Local Finance Bureau or Director-General of a Local Finance Branch Bureau".
- (3) If the Director-General of a Local Finance Bureau or Director-General of a Local Finance Branch Bureau receives a report from the Official of the Local

Finance Bureau, etc. under the provisions of the preceding Article as applied through the replacement of terms in the preceding paragraph, the Director-General must report the details of the report to the Commission.

- (4) The Commission guides and supervises the Director-General of the Local Finance Bureau or Director-General of the Local Finance Branch Bureau in the investigation in a criminal case.
- (5) The Commission may directly guide or supervise the Official of a Local Finance Bureau, etc., if it finds this to be necessary in connection with the investigation in a criminal case.

(Discharge of Duties Outside the Jurisdictional District)

Article 225 The Official of a Local Finance Bureau, etc. may discharge duties outside of the jurisdictional district of the local finance bureau or local finance branch bureau of which the Official is a part, if it is necessary for the Official to do so in order to conduct the investigation in a criminal case.

(Accusation by the Commission)

Article 226 (1) If the Commission is convinced that a criminal offense has taken place based on the investigation in a criminal case, it must file an accusation and take control of any retained articles or seized articles, together with the retention inventory or seizure inventory.

- (2) If a retained article or seized article referred to in the preceding paragraph is in storage as under Article 221, the Commission must use the storage certificate referred to in that Article to take control of it, notifying the custodian referred to in that Article to that effect.
- (3) If control of a retained article or seized article is taken pursuant to one of the preceding two paragraphs, that article is deemed to have been seized pursuant to the provisions of the Code of Criminal Procedure (Act No. 131 of 1948).

(Restriction on Appeals)

Article 227 An appeal under the Administrative Appeal Act may not be filed against a disposition reached by the Commission, a Commission Official, the Director-General of a Local Finance Bureau, the Director-General of a Local Finance Branch Bureau, or the Official of a Local Finance Bureau, etc. based on the provisions of this Chapter.

## **Business Regulations**

(As of July 19, 2016)

Osaka Exchange, Inc.

### **Chapter 1**

#### **General Provisions**

##### **Rule 1. Purpose**

1. These Regulations shall prescribe necessary matters concerning market derivatives trading on financial instruments exchange markets established by OSE (hereinafter referred to as the "OSE markets") pursuant to the provisions of Article 44, Paragraph 1 of the Articles of Incorporation; provided, however, that matters concerning exchange foreign exchange margin transactions (meaning, among those enumerated in Rule 2, Paragraph 21, Item 2 of the Financial Instruments and Exchange Act (Act No. 25 of 1948; hereinafter referred to as the "Act"), transactions relating to the price of currency) shall be governed by these Regulations and the Special Rules for Business Regulations and Brokerage Agreement Standards Relating to Exchange Foreign Exchange Margin Trading.
2. Any amendments to these Regulations shall be made by resolution of the Board of Directors; provided, however, that this shall not apply in cases of minor amendments.

##### **Rule 2. Trading Participant Regulations, etc.**

1. The obligations of Trading Participants and other matters concerning Trading Participants, including granting of a trading qualification, shall be prescribed in the Trading Participant Regulations.
2. Matters concerning the clearing and settlement of market derivatives contracts on the OSE markets shall be prescribed in the Clearing and Settlement Regulations.

##### **Rule 2-2. Entrustment of Self-Regulatory Operations**

1. OSE may entrust Japan Exchange Regulation (hereinafter referred to as "JPX-R") with the operations concerning listing and delisting of security options prescribed in Rule 3, Paragraph 1, Item 3 among self-regulatory operations prescribed in Article 84, Paragraph 2 of the Act.
2. With respect to the operations entrusted to JPX-R pursuant to the provisions of the preceding paragraph, OSE shall grant approval based on the result of examination conducted by JPX-R.

##### **Rule 3. Types of Market Derivatives Contracts**

Market derivatives contracts on the OSE markets shall be the contracts enumerated in the following

items:

(1) Government bond futures contract

a. Large contract

A contract enumerated in Article 2, Paragraph 21, Item 1 of the Act that pertains to standardized government bonds

b. Mini contract

A contract enumerated in Article 2, Paragraph 21, Item 2 of the Act that pertains to prices of standardized government bonds

(2) Index futures contract

A contract pertaining to an index among those referred to in Article 2, Paragraph 21, Item 2 of the Act

(3) Security options contract

A contract pertaining to transactions in securities referred to in Article 2, Paragraph 21, Item 3 of the Act, wherein the parties thereto agree that one party grants the other party a security option (meaning the right of the party acquiring the security option (meaning the party to whom the security option is granted) to effect a sale or purchase in a certain security between the parties by a declaration of intention; the same shall apply hereinafter) and the other party pays the consideration for such option

(4) Government bond futures options contract

A contract pertaining to transactions in government bond futures contracts referred to in Article 2, Paragraph 21, Item 3 of the Act, wherein the parties thereto agree that one party grants the other party a government bond futures option (meaning the right of the party acquiring the government bond futures option (meaning the party to whom the government bond futures option is granted) to effect a sale or purchase in government bond futures contracts between the parties by a declaration of intention by the party acquiring such right; the same shall apply hereinafter) and the other party pays the consideration for such option

(5) Index options contract

A contract pertaining to transactions prescribed in this regulations as transactions equivalent to those referred to in Article 2, Paragraph 21, Item 2 of the Act out of transactions referred to in Item 3 of the same paragraph, wherein the parties thereto agree that one party grants the other party an index option (meaning the right of the party acquiring the option (meaning the party to whom the index option is granted; the same shall apply in Rule 14) to effect between the parties, by a declaration of intention, a transaction in which the parties shall pay/receive an amount of money calculated based on the difference between a numerical value of the index set in advance as a contract index in the case such exercise is intended and the actual numerical value of the index at the time of the actual declaration of such intention (referred to as the "actual index value" in Rule 14); the same shall apply hereinafter) and the other

party pays the consideration for such option.

**Rule 4. Definitions of Terms**

The meanings of the terms used in these Regulations shall be subject to the provisions of each rule in addition to the following items:

- (1) The term "futures contract" means a government bond futures contract or an index futures contract.
- (1)-2 The term "option" means a security option, a government bond futures option, or an index option, and the term "options contract" means a security options contract, a government bond futures options contract, or an index options contract.
- (2) The term "contract month" means a contract with the classification of the day prescribed according to the types and subjects of derivatives market contracts as the last trading day.
- (3) The term "exercise" means exercise of options.
- (3)-2 The term "exercise date" means the date on which exercise of security options or index options is allowed, and the term "exercise period" means the period during which exercise of government bond futures options is allowed.
- (4) The term "exercise price" means, with respect to security options contracts and government bond futures options, a price set in advance as a contract price in the case of exercising said options, and, with respect to index options contracts, a value set in advance as an index in the case of making the declaration of intention set forth in Item 5 of the preceding rule.
- (5) The term "sale" is as prescribed in the relevant a. through c. in accordance with the classification of the market derivatives contracts enumerated in the following a. through c.
  - a. Government bond futures contract
    - (a) Large contract  
A contract where the party will deliver a government bond
    - (b) Mini contract  
A contract where the party will receive money if the actual value (meaning the value of the price of standardized government bonds at a fixed time in the future; the same shall apply in a. (b) of the following item) falls below the contract value (meaning the value agreed by the parties as the price of standardized government bond in advance; the same shall apply in a. (b) of the following item)
  - b. Index futures contract  
A contract where the party will receive money if the actual value (meaning the actual value of index at a fixed time in the future; the same shall apply in b. of the following item) falls below the contract value (meaning the value agreed by the parties as the index value in advance; the same shall apply in b. of the following item)
  - c. Options contract

A contract where the party will grant an option

(6) The term "purchase" shall be as prescribed in the relevant a. through c. in accordance with the classification of market derivatives contracts enumerated in the following a. through c.

a. Government bond futures contract

(a) Large contract

A contract where the party will receive a government bond

(b) Mini contract

A contract where the party will receive money if the actual value exceeds the contract value

b. Index futures contract

A contract where the party will receive money if the actual value exceeds the contract value

c. Options contract

A contract where the party will acquire an option

(7) The term "price" shall be as prescribed in the following a. through c. in accordance with the classification of the market derivatives contracts enumerated in a. through c.

a. Government bond futures contract

(a) Large contract

An amount of consideration to be paid for a sale or purchase of a standardized government bond

(b) Mini contract

A numerical value of a price of a standardized government bond

b. Index futures contracts

A numerical value of index in an index futures contract

c. Options contracts

An amount of consideration to be paid for a sale or purchase of an option

(8) The term "price fluctuation range" means the range of price fluctuations.

(9) The term "order" means a declaration of intention concerning the limit of the price that will be executed in the market derivatives contract.

(10) The term "offer" means an order pertaining to a sale, and the term "bid" means an order pertaining to a purchase.

(11) The term "trading day" shall be as prescribed in the following a. and b. in accordance with the classification of the market derivatives contracts specified in such a. and b.

a. Government bond futures contract and government bond futures options contract

A period between 3:25 p.m. on a day (excluding non-business days (meaning the non-business day stipulated in Rule 19, Paragraph 3 including extraordinary non-business days prescribed in Paragraph 2 of the same rule; the same shall apply hereinafter)) and 3:15 p.m. on the following day (to be moved down in order if it falls on a non-business day; the

same shall apply hereinafter except for Rule 18, Paragraph 1, Item 2 and Rule 26, Paragraph 3)

b. Index futures contract and index options contract

A period between 4:15 p.m. on a day and 4:00 p.m. on the following day

(12) The term "unsettled contract" means a contract whose settlement is not completed, and the term "position" means the number of unsettled contracts.

(13) The term "long position" means the number of contracts pertaining to a purchase out of position, and the term "short position" means the number of contracts pertaining to a sale out of position.

(14) The term "resale" means an opposite contract for long position, and the term "repurchase" means an opposite contract for short position.

## Chapter 2

### Subjects of Contracts and Contract Months, etc.

#### Section 1

##### Standardized Government Bonds, etc.

#### **Rule 4-2. Conditions for Standardized Government Bonds for Large Contracts**

The conditions for standardized government bonds for large contracts shall be as specified in each of the following items for each issue.

- (1) For standardized medium-term government bond: 100 yen face value, 3% interest rate per annum, and 5-year maturity.
- (2) For standardized long-term government bond: 100 yen face value, 6% interest rate per annum, and 10-year maturity.
- (3) For standardized super long-term government bond: 100 yen face value, 3% interest rate per annum, and 20-year maturity.

#### **Rule 4-3. Subject of Mini Contracts**

The subject of mini contracts shall be prices of standardized long-term government bonds.

#### **Rule 4-4. Contract Months and Number thereof**

1. Large and mini contracts shall be classified into contract months for each issue.
2. The contract months in the preceding paragraph shall be those set forth in each of the following items:

- (1) For large contracts, contract months shall be those for which the date of delivery settlement is

- March 20 (to be moved down in order if the date falls on a non-business day; the same shall apply hereinafter in this paragraph), June 20, September 20, and December 20.
- (2) For mini contracts, contract months shall be those for which the last trading day is the trading day that ends on the day (to be moved up in order if the day falls on a non-business day; the same shall apply hereinafter) immediately prior to the day on which the last trading day of the large contract for March, June, September, and December ends.
3. For both large and mini contracts, three contract months shall be set. The trading period of each contract month shall be nine months.
4. For large contracts, the last trading day of the contract month that has the earliest day of delivery settlement shall be the trading day that ends five days (excluding non-business days) before such day of delivery settlement, and trading in a new contract month shall begin at a time prescribed by OSE on the day following the day on which said last trading day ends.
5. For mini contracts, trading in a new contract month shall begin at a time prescribed by OSE on the day (to be moved down in order if the day falls on a non-business day) two days after the day on which the last trading day of the contract month that has the earliest last trading day.
6. Notwithstanding the provisions of Paragraphs 2 through 5, in cases where OSE deems it necessary, OSE may change the number and the trading period of contract months as well as the last trading day and the initial trading day.

## Section 1-2

### Subjects of Index Futures Contracts

#### Rule 5. Subjects of Contracts

The subjects of index futures contracts shall be the index specified in the following items:

- (1) Nikkei Stock Average (Nikkei Average): An adjusted average stock price index composed of 225 stocks from among stocks listed on the First Section of the Tokyo Stock Exchange, Inc. (hereinafter referred to as "TSE") and calculated by Nikkei Inc.
- (2) Tokyo Stock Price Index (TOPIX): A free-float adjusted market capitalization-weighted stock price index calculated by TSE and composed of stocks listed on the TSE First Section, which are a class of TSE-listed stocks (meaning those limited to stocks issued by domestic corporations (excluding stocks without voting rights (meaning those prescribed in Rule 2, Item 87 of the Securities Listing Regulations of TSE) and preferred stocks, etc. (meaning those prescribed in Rule 2, Item 90 of the same regulations); the same shall apply hereinafter).
- (3) JPX-Nikkei Index 400: A free-float adjusted market capitalization-weighted stock price index composed of 400 stocks selected from among stocks listed on the TSE First Section, Second Section, Mothers and JASDAQ and calculated by Japan Exchange Group, Inc., TSE, and

- Nikkei Inc.
- (4) TSE Mothers Index: A free-float adjusted market capitalization-weighted stock price index composed of stocks listed on the TSE Mothers which are a class of the TSE-listed stocks and calculated by TSE.
  - (5) Russell/Nomura Prime Index (RNP Index): A free-float adjusted market capitalization-weighted stock price index of stocks selected by Frank Russell Company and Nomura Securities Co., Ltd. (hereinafter referred to as "Russell/Nomura") from among stocks listed on a financial instruments exchange(s) in Japan and calculated by Russell/Nomura.
  - (6) TOPIX Core30: A free-float adjusted market capitalization-weighted stock price index composed of 30 stocks selected by TSE from among those listed on the TSE First Section which are a class of the TSE-listed stocks and calculated by TSE.
  - (7) TOPIX Banks Index: A free-float adjusted market capitalization-weighted stock price index composed of stocks classified under the banking sector by the Securities Identification Code Committee from among those listed on the TSE First Section which are a class of the TSE-listed stocks and calculated by TSE.
  - (8) TSE REIT Index: A market capitalization-weighted index composed of securities listed on the TSE REIT ("real estate investment trust securities" as prescribed in Rule 1201, Item 7 of the Securities Listing Regulations of TSE) market and calculated by TSE.
  - (9) Dow Jones Industrial Average (DJIA): An adjusted average stock price index of 30 stocks selected by the S&P Dow Jones Indices LLC from among stocks listed on a foreign financial instruments market and calculated by the S&P Dow Jones Indices LLC.
  - (10) Nifty 50: A free-float adjusted market capitalization-weighted stock price index composed of 50 stocks selected by India Index Services Products Limited (hereinafter referred to as "IISL") from among stocks listed on the National Stock Exchange of India (hereinafter referred to as "NSE").
  - (11) TWSE Capitalization Weighted Stock Index (TAIEX) : A market capitalization-weighted stock price index composed of stocks listed on the Taiwan Stock Exchange Corporation (hereinafter referred to as "TWSE") and calculated by TWSE.
  - (12) FTSE China 50 Index: A free-float adjusted market capitalization-weighted stock price index composed of 50 stocks selected by FTSE International Limited from among stocks listed on the Stock Exchange of Hong Kong Limited (hereinafter referred to as "SEHK") and calculated by FTSE International Limited.
  - (13) Nikkei Stock Average Volatility Index (Nikkei 225 VI): An index which estimates the size of a future change in the Nikkei Average and is calculated by Nikkei Inc.
  - (14) Nikkei Stock Average Dividend Point Index: A dividend index (an index calculated from dividend amounts (meaning surplus dividends; the same shall apply hereinafter); the same

shall apply hereinafter in this rule) of stocks which are Nikkei Average constituents and calculated by Nikkei Inc.

(15) TOPIX Dividend Index: A dividend index of stocks which are TOPIX constituents and calculated by TSE.

(16) TOPIX Core30 Dividend Index: A dividend index of stocks which are TOPIX Core30 constituents and calculated by TSE.

#### **Rule 6. Large Contract and Mini Contract**

Index futures contracts on Nikkei Average and TOPIX shall be classified into large contracts and mini contracts in accordance with the following items.

(1) Nikkei Average

A large contract shall be a contract whose trading unit is the amount specified in Rule 29, Item 2 a. (a), and a mini contract shall be a contract whose trading unit is the amount specified in a. (b) of the same item.

(2) TOPIX

A large contract shall be a contract whose trading unit is the amount specified in Rule 29, Item 2 b. (a), and a mini contract shall be a contract whose trading unit is the amount specified in b. (b) of the same item.

#### **Rule 7. Contract Months and Number thereof**

1. Trading in index futures contracts shall be conducted in accordance with the classification of contract months whose last trading is the day stipulated in respective items for underlying index (meaning an index in index futures contracts; the same shall apply hereinafter) enumerated in each of the following items.

(1) Nikkei Average, TOPIX, JPX-Nikkei Index 400, TSE Mothers Index, RNP Index, TOPIX Core30, TOPIX Banks Index, and TSE REIT Index

A trading day that ends on the day preceding the second Friday of each calendar month (to be moved up in order if the day falls on a non-business day; the same shall apply hereinafter)

(2) DJIA

A trading day that ends on the third Friday of each calendar month (to be moved up in order if the day falls on a non-business day or if the day in the Eastern Standard Time of the United States of America falls on the day when the DJIA is scheduled not to be calculated)

(3) Nifty 50

A trading day that ends on the last Thursday of each calendar month (to be moved up in order if the day falls on a non-business day or if the day in India falls on the day when the Nifty 50 is scheduled not to be calculated)

(4) TAIEX

A trading day that ends on the day preceding the third Wednesday of each calendar month (to be moved down in order if the day in Taiwan falls on the day when TAIEX is scheduled not to be calculated)

(5) FTSE China 50 Index

A trading day that ends on the day (to be moved up in order if the day in Hong Kong falls on the day when the FTSE China 50 Index is scheduled not to be calculated) preceding the last day of each calendar month (to be moved up in order if the day in Hong Kong falls on the day when the FTSE China 50 Index is scheduled not to be calculated)

(6) Nikkei 225 VI

A trading day that ends on the day preceding the day that is thirty days prior to the second Friday of each calendar month (to be moved up in order if it falls on a non-business day; the same shall apply hereinafter.)

(7) Dividend indices (meaning Nikkei Stock Average Dividend Point Index, TOPIX Dividend Index, and TOPIX Core30 Dividend Index; the same shall apply hereinafter)

A trading day that ends on the final day of March (to be moved up in order if it falls on a non-business day; the same shall apply hereinafter)

2. The number of contract months and the trading period of each contract month shall be as prescribed in the following relevant item in accordance with the classification of the underlying indices enumerated in each of the following items:

(1) Nikkei Average

a. Large contract

Thirteen contract months of March, June, September and December (hereinafter referred to as "specified contract months") shall be set. The trading period of each contract month of June and December shall be five years and that of each contract month of March and September shall be one year and six months.

b. Mini contract

Thirteen contract months of the specified contract months and the nearest three contract months other than the specified contract months shall be set. The trading period of each specified contract month shall be five years (one year and six months for each contract month of March and September) and that of each contract month other than the specified contract months shall be five months (four months for each contract month of February, May, August and November).

(2) TOPIX

a. Large contract

Five contract months of the specified contract months shall be set. The trading period of each contract month shall be one year and three months.

b. Mini contract

Three contract months of the specified contract months shall be set. The trading period of each contract month shall be nine months.

(3) JPX-Nikkei Index 400, TSE Mothers Index, and RNP Index

Five contract months of the specified contract months shall be set. The trading period of each contract month shall be one year and three months.

(4) TOPIX Core30, TOPIX Banks Index, and TSE REIT Index

Three contract months of the specified contract months shall be set. The trading period of each contract month shall be nine months.

(5) DJIA

Four contract months of the specified contract months shall be set. The trading period of each contract month shall be one year.

(6) Nifty 50

Three contract months of each contract months shall be set. The trading period of each contract month shall be three months.

(7) TAIEX

Two consecutive near-term contract months and three contract months of the specified contract months other than the aforementioned two near-term contract months shall be set. The trading period of each contract month shall be two months for the contract months other than the specified contract months and eleven months for specified contract months.

(8) FTSE China 50 Index

Two consecutive near-term contract months and two contract months of the specified contract months other than the aforementioned two near-term contract months shall be set. The trading period of each contract month shall be two months for the contract months other than the specified contract months and eight months for the specified contract months.

(9) Nikkei 225 VI

Eight contract months of each month shall be set. The trading period of each contract month shall be eight months.

(10) Dividend indices

Eight contract months (nine contract months during the period from January 4 (to be moved down in order if the date falls on a non-business day; the same shall apply hereinafter.) to the day on which the last trading day of the contract month whose last trading day comes earliest ends (hereinafter referred to as the "nearest contract month")) of the December contract month shall be set. The trading period of each contract month shall be eight years and three months.

3. The final settlement day of each contract month shall be the day following the day on which the final settlement price is determined in accordance with the provisions of each paragraph of Rule 36.

4. Trading in a new contract month shall begin pursuant to the provisions of each of the following items.
  - (1) For index futures contracts (excluding dividend index futures contracts (meaning index futures contracts on the dividend indices; the same shall apply hereinafter.)), it shall begin at the time prescribed by OSE on the day following the last trading day of the nearest contract month.
  - (2) For dividend index futures contracts, it shall begin at the time prescribed by OSE on January 4 of the year in which the last trading day of the nearest contract month falls.
5. Notwithstanding the provisions of each of the preceding paragraphs, in the case where OSE lists an underlying index and other cases where OSE deems it necessary, OSE may change the number and the trading period of contract months as well as the last trading day and the initial trading day.

## **Section 2**

### **Subjects of Security Options Contracts, etc.**

#### **Rule 8. Subjects of Contracts**

1. The subjects of security options contracts shall be security options specified in the following items pertaining to certain securities that are selected by OSE based on the criteria set forth in the next rule among securities listed on domestic financial instruments exchanges (hereinafter referred to as "underlying securities").
  - (1) Security options that can effect, in the securities transaction effected by exercise thereof, a sale of the underlying security at the exercise price for the quantity of the underlying security prescribed in the following paragraph and the Paragraph 3 (the same shall apply in the following item; hereinafter referred to as security put options).
  - (2) Security options that can effect, in the securities transaction effected resulting exercise thereof, a purchase of the underlying security at the exercise price for the quantity of the underlying security (hereinafter referred to as security call options)
2. The quantity of transactions in an underlying security resulting from exercise for minimum unit (hereinafter referred to as the "quantity of an underlying security for one trading unit of the security option") shall be the amount of the trading unit of the underlying security (meaning the trading unit provided in the regulations of the financial instruments exchange that establishes financial instruments exchange markets listing the underlying security (hereinafter referred to as the "exchange listing the underlying security"; the same shall apply hereinafter).
3. Notwithstanding the provisions of the preceding paragraph, in cases where the quantity of an underlying security for one trading unit of the security option is adjusted under the provisions of Rule 12, Paragraph 2, transactions for said adjusted quantity of the underlying security shall be effected by exercise for minimum unit.

4. In relation to security options contracts, the term "issue" means security put options or security call options that have the same underlying security, quantity of an underlying security for one trading unit of the security option, exercise date and exercise price.

**Rule 9. Selection Criteria for Underlying Securities**

1. Securities shall be selected as underlying securities from among the securities satisfying either of the criteria prescribed in the relevant item in accordance with the classification of the listed securities enumerated in the following items.

(1) Stocks

Satisfying either of the following a. or b.

a. Satisfying the following (a) through (c)

(a) Stocks listed on the first section of TSE or Nagoya Stock Exchange, Inc. (hereinafter referred to as the "two exchanges") or stocks (limited to stock not listed on the two exchanges) satisfying the following (i) through (iii):

(i) The number of tradable shares (as stipulated by OSE, the number of listed shares (meaning the number of shares listed in the exchange listing the underlying security; the same shall apply hereinafter) excluding the number of shares held by large shareholders etc.; the same shall apply hereinafter) is 20,000 units or more (one unit shall mean, if a certain number of shares is set as one Share Unit (meaning the number of shares constituting one Share Unit prescribed in Article 2, Item 20 of the Companies Act (Act No. 86 of 2005); the same shall apply hereinafter), one Share Unit, and, if not, one share; the same shall apply hereinafter.);

(ii) The number of tradable shares is 35% or more of the number of listed shares; and

(iii) The number of shareholders (meaning the number of those who hold not less than one unit of stock) is 2,200 or more.

(b) The number of listed shares is 100,000 units or more.

(c) The monthly average trading volume (meaning the total trading volume in financial instruments exchange markets established by domestic financial instruments exchanges divided by the number of relevant months; the same shall apply hereinafter) for the past year (the period to date since the listing date for stocks that have been listed for less than one year) is 2,000 units or more.

b. The certificates satisfy the preceding a.(a) and the number of listed shares is 500,000 units or more.

(2) Investment trust beneficiary certificates

Satisfying either of the following a. or b.

a. Satisfying the following (a) through (d).

(a) The certificates shall be those pertaining to a securities investment trust which is

managed such that the fluctuation rate of the net asset value per unit of investment trust assets tracks the fluctuation rate of a specific indicator (meaning quotations in the financial instruments market or other indicators).

- (b) The number of beneficiaries (meaning those who hold beneficiary certificates for equal to or more than the trading unit) is 2,200 or more.
  - (c) The total number of listed beneficiary certificates is equal to or more than the number of units equivalent to 100,000 times the trading unit in the exchange listing the underlying security.
  - (d) The monthly average trading volume for the past year (the period to date since the listing date for investment trust beneficiary certificates that have been listed for less than one year) is 2,000 units or more.
- b. The certificates satisfy the preceding a.(a) and (b), and the total number of listed beneficiary certificates is equal to or more than the number of units equivalent to 500,000 times the trading unit in the exchange listing the underlying security.
- (3) Preferred equity contribution securities and investment securities
- Satisfying either of the following a. or b.
- a. Satisfying the following (a) through (e).
    - (a) The number of tradable preferred equity contribution securities or tradable investment securities (as stipulated by OSE, the number of listed preferred equity contribution securities or listed investment securities excluding the number of preferred equity contribution securities or listed investment securities held by large shareholders etc.; the same shall apply hereinafter) is 20,000 units or more.
    - (b) The number of tradable preferred equity contribution securities or tradable investment securities is 35% or more of the number of listed preferred equity contribution securities or listed investment securities.
    - (c) The number of preferred equity investment registries or investors is 2,200 or more.
    - (d) The number of listed preferred equity contribution securities or listed investment securities is 100,000 units or more.
    - (e) The monthly average trading volume for the past year (the period to date since the listing date for preferred equity contribution securities or investment securities that have been listed for less than one year) is 2,000 units or more.
  - b. The preferred equity contribution securities or investment securities satisfy the preceding a.(a) through (c), and the total number of listed preferred equity contribution securities or listed investment securities is 500,000 or more.
2. The monthly average trading volume prescribed in Items (1)a.(c), Item (2)a.(d) and Item(3)a.(e) of the preceding paragraph shall depend on the existing state on the day when underlying securities are selected.

3. Notwithstanding the provisions of Paragraph 1, in cases where the issuer company (including investment companies) of an underlying security undergoes corporate restructuring (meaning merger, stock swap, stock transfer and demerger, etc.; the same shall apply hereinafter), when selecting the securities issued by the newly created company or the surviving company relating to such corporate restructuring as underlying securities, or in cases where a reverse split (meaning the reverse split prescribed in Article 16, Item 2 of the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951); the same shall apply hereinafter in this paragraph) of an underlying security (limited to investment trust beneficiary certificates) when selecting the investment trust beneficiary certificate issued due to the reverse split as underlying securities, the form of such corporation restructuring and reverse split and trading volume, etc. of the underlying securities before such corporate restructuring and reverse split shall be taken into account.

**Rule 10. Contract Months and Number thereof**

1. Security options contracts shall be classified into the contract months whose last trading day is the day preceding the second Friday of each calendar month.
2. The number of contract months and the trading period stipulated in the preceding paragraph shall be four contract months of the nearest two contract months and the two specified contract months. The trading period of each contract month of the specified contract months shall be eight months and that of each contract month other than the specified contract months shall be two months.
3. The initial trading day when trading in a new contract month begins shall be the day following the last trading day of the contract month whose last trading day comes first among each contract month prescribed in the preceding paragraph.
4. Notwithstanding the provisions of the preceding three paragraphs, in the case where OSE newly selects an underlying security and lists security options for such security and in other cases where OSE deems it necessary, OSE may change the number of contract months, the trading period, the last trading day and the first trading day.

**Rule 11. Exercise Prices and Number thereof**

1. Security options contracts shall be classified into the exercise prices set for each contract month with respect to the underlying securities.
2. With respect to exercise prices prescribed in the preceding paragraph, five exercise prices shall be set per share (or per unit for preferred equity contribution securities, investment trust beneficiary certificates or investment securities; the same shall apply in the next rule, Rule 13 and Rule 26, Paragraph 8, Item 3) of each underlying security as integral multiples of the prices specified in the following items at intervals of such prices on the initial trading day of the relevant contract month, based on prices of the underlying security on the designated market (meaning the financial instruments exchange market designated by OSE based on trading volume, etc. among financial

instruments exchange markets established by the exchange listing the underlying security; the same shall apply hereinafter). However, in cases where OSE deems it necessary, OSE may change the exercise prices and the number thereof.

- (1) 25 yen where the exercise price is less than 500 yen
  - (2) 50 yen where the exercise price is 500 yen or more but less than 1,000 yen
  - (3) 100 yen where the exercise price is 1,000 yen or more but less than 2,000 yen
  - (4) 200 yen where the exercise price is 2,000 yen or more but less than 5,000 yen
  - (5) 500 yen where the exercise price is 5,000 yen or more but less than 30,000 yen
  - (6) 1,000 yen where the exercise price is 30,000 yen or more but less than 50,000 yen
  - (7) 2,500 yen where the exercise price is 50,000 yen or more but less than 100,000 yen
  - (8) 10,000 yen where the exercise price is 100,000 yen or more but less than 200,000 yen
  - (9) 20,000 yen where the exercise price is 200,000 yen or more but less than 500,000 yen
  - (10) 50,000 yen where the exercise price is 500,000 yen or more but less than 1 million yen
  - (11) 10,000 yen where the exercise price is 1 million yen or more but less than 2 million yen
  - (12) 200,000 yen where the exercise price is 2 million yen or more but less than 5 million yen
  - (13) 500,000 yen where the exercise price is 5 million yen or more but less than 10 million yen
  - (14) 1 million yen where the exercise price is 10 million yen or more but less than 20 million yen
  - (15) 2 million yen where the exercise price is 20 million yen or more but less than 50 million yen
  - (16) 5 million yen where the exercise price is 50 million yen or more
3. In addition to the preceding paragraph, new exercise prices may be set for all or part of contract months as stipulated by OSE.

**Rule 12. Adjustment to Exercise Prices, etc.**

1. Exercise prices of security options pertaining to the underlying securities where transactions therein fall into the ex-rights categories described in the following items shall be adjusted as stipulated by OSE on the date stipulated in the relevant item.
  - (1) Ex-rights (excluding dividend (meaning dividend from surplus, and including distribution of profit of investment trust beneficiary certificates and that of money of investment securities; the same shall apply hereinafter) or ex-rights prescribed in the first sentence of the following item) resulting from a stock (including investment unit and beneficiary right; the same shall apply hereinafter) split, gratis allotment of shares or a paid-in capital increase  
The day stipulated by a financial instruments exchange that establishes the designated market (hereinafter referred to as the "designated exchange") as the ex-rights date pertaining to a stock split, gratis allotment of shares or a paid-in capital increase.
  - (2) Ex-rights only for the rights to receive stocks resulting from shareholder directed spin-off (meaning a demerger in which all or part of the shares of a succeeding company or a newly created company will be delivered to the shareholders of the demerged company at the time

of such demerger; the same shall apply hereinafter)

The day following the day when, after the ex-rights (limited to the rights to receive stocks resulting from a shareholder directed spin-off) date pertaining to shareholder directed spin-off (meaning the day prescribed as the ex-rights date by the designated exchange; the same shall apply in the following paragraph), the initial price (hereinafter referred to as the "initial price after the ex-rights pertaining to shareholder directed spin-off") for such underlying security is determined on the designated market.

2. When exercise prices are adjusted under the provisions of the preceding paragraph, the quantity of an underlying security for one trading unit of the security option shall be adjusted as stipulated by OSE. However, when the quantity to be adjusted is an integral multiple of the trading unit of underlying securities in cases where a stock split is conducted such that one share of an underlying security is split into an integral multiple of one share or a gratis allotment of shares is conducted such that the same type of shares for integral multiple of one share is allotted to one share of relevant underlying securities, and when the final price (meaning the final price (including the final price of the quote displayed as prescribed by the designated exchange) for such underlying security on the designated market; provided, however, that in cases where there is no such contract price on the relevant day, it shall be a price stipulated by OSE) of the underlying security on the day preceding the ex-rights date pertaining to shareholder directed spin-off is an integral multiple of the initial price after the ex-rights pertaining to shareholder directed spin-off, and when OSE deems it necessary otherwise, the quantity of such underlying security shall not be adjusted.
3. Notwithstanding the preceding two paragraphs, in cases where OSE deems it necessary, OSE may adjust exercise prices of security options in accordance with a method as stipulated by OSE on a case-by-case basis.

### **Rule 13. Special Setting of Exercise Prices**

1. In cases where the quantity has been adjusted under the provisions of Paragraph 2 of the preceding rule, with respect to such contract months, exercise prices in which one unit of security options is a quantity of the trading unit of the underlying security shall be set, (hereinafter referred to as the "special setting of exercise prices"), in principle, in accordance with the classification of ex-rights set forth in the following items on the relevant day, separately from the exercise prices adjusted pursuant to Paragraph 1 of the preceding rule.
  - (1) Ex-rights resulting from a stock split, gratis allotment of shares or a paid-in capital increase, etc.

The day specified by the designated exchange as the ex-rights date for a stock split, gratis allotment of shares or a paid-in capital increase, etc.
  - (2) Ex-rights only for the rights to receive stocks resulting from shareholder directed spin-off

- The day specified by the designated exchange as the day following the day on which the initial price after the ex-rights pertaining to shareholder directed spin-off is determined
2. With respect to the special setting of exercise prices prescribed excluding in each item of the preceding paragraph, five exercise prices shall be set per underlying security as integral multiples of the prices at intervals of such prices prescribed in each item of Rule 11, Paragraph 2 based on the prices of the underlying security on the designated market as determined by OSE.
  3. With respect to part of or all contract months pertaining to underlying securities for which special setting of exercise prices is conducted, OSE shall not set new exercise prices based on the exercise prices adjusted pursuant to the Paragraph 1 of the preceding rule, and may set new exercise prices based on the exercise prices set resulting from special setting of exercise prices pursuant to the provisions specified by OSE.

## **Section 2-2**

### **Subjects of Options Contracts on Government Bond Futures, etc.**

#### **Rule 13-2. Subjects of Contracts**

1. The subjects of the government bond futures options contracts shall be the government bond futures options on standardized long-term government bonds enumerated in each of the following items.
  - (1) Government bond futures option that can execute a sale of government bond futures with a face value of 100 million yen at an exercise price for a contract month set in advance as the contract month of a government bond futures contract to be concluded by exercise. (see Notes 1 and 2 below).
    - (Note 1) Such contract month shall be hereinafter referred to as "underlying government bond futures contract month."
    - (Note 2) Such government bond futures options shall be hereinafter referred to as "government bond futures put options."
  - (2) Government bond futures option that can execute a purchase of government bond futures with a face value of 100 million yen at an exercise price for any of the underlying government bond futures contract month (hereinafter referred to as "government bond futures call options.").
2. In relation to government bond futures options, the term "issue" means government bond futures put options or government bond futures call options for which the same issue is designated as the subject of the government bond futures contract due to exercise, and that have the same exercise period expiration date and exercise price.

#### **Rule 13-3. Contract Months and Number thereof**

1. Government bond futures options contracts, with respect to government bond futures put options and government bond futures call options, shall be classified, in accordance with contract month classification for each issue designated as the subject of the government bond futures contract due to exercise, into the contract months whose last trading day falls on the last day (to be moved up in order if the day falls on a non-business day) of each month.
2. For the contract months specified in the preceding paragraph, with respect to those contract months whose last trading day falls in the month immediately preceding March, June, September, and December (hereinafter referred to as "quarterly contract months"), there shall be two contract months. The trading period of each contract month shall be six months. In such case, trading in a new quarterly contract month shall begin at the time prescribed by OSE on the day following the last trading day that arrives earliest among the last trading days of the two quarterly contract months.
3. For the contract months specified in Paragraph 1, with respect to those contract months other than contract months whose last trading day falls in the month immediately preceding March, June, September, and December (see Note below), the trading period of each contract month shall be two months. In such case, trading in a new contract month shall begin at the time prescribed by OSE on the first day (to be moved down in order if the day falls on a non-business day; the same shall apply hereinafter) of the month immediately preceding the month to which the last trading day of the relevant contract month pertains.  
(Note) Such contract months shall be hereinafter referred to as "contract months other than quarterly contract months."
4. Notwithstanding the provisions of Paragraphs 1 through 3 above, in cases where OSE deems it necessary, OSE may change the number and the trading period of contract months as well as the last trading day and the initial trading day.

**Rule 13-4. Underlying Government Bond Futures Contract Month**

Transactions in government bond futures options shall be executed with respect to a contract month of the government bond futures contract with the earliest day of settlement by delivery after the last trading day of each contract month as the underlying government bond futures contract month.

**Rule 13-5. Exercise Prices and Number thereof**

1. Government bond futures options contracts, either with respect to government bond futures put options or government bond futures call options, shall be classified into the exercise prices set for each contract month.
2. Exercise prices as prescribed in the preceding paragraph shall be integral multiples of 50/100 yen at 50/100 yen intervals per face value of 100 yen of the underlying government bond futures contract to be concluded by the exercise, and twenty-one (21) exercise prices shall be set at the

time prescribed by OSE on the initial trading day of each contract month as specified by OSE. However, in cases where OSE deems it necessary, OSE may change the exercise prices and the number thereof.

3. In addition to the provisions of the preceding paragraph, OSE may set new exercise prices for all or some contract months pursuant to the provisions specified by OSE.

### **Section 3**

#### **Subjects of Index Options Contracts, etc.**

#### **Rule 14. Subjects of Contract**

1. The subjects of index options contracts shall be the index options enumerated in the following items that pertain to the underlying indices specified in the following paragraph.
  - (1) Index options that can effect a transaction in which the party acquiring the option receives from the other party the amount of money calculated by multiplying the difference between the actual index value and the exercise price by the contract multiplier (meaning the contract multiplier prescribed in Paragraph 3) pertaining to the underlying index when the actual index value falls below the exercise price (hereinafter referred to as "index put options")
  - (2) Index options that can effect a transaction in which the party acquiring the option receives from the other party the amount of money calculated by multiplying the difference between the actual index value and the exercise price by the contract multiplier pertaining to the underlying index when the actual index exceeds the exercise price (hereinafter referred to as "index call options")
2. The underlying indices of index options contracts shall be the indices specified in each of the following items:
  - (1) Nikkei Average
  - (2) TOPIX
  - (3) JPX-Nikkei Index 400
3. The contract multiplier shall be 1,000 yen for Nikkei Average Options (meaning the index options pertaining to the Nikkei Average; the same shall apply hereinafter) and JPX-Nikkei Index 400 Options (meaning the index options pertaining to the JPX-Nikkei Index 400; the same shall apply hereinafter) and 10,000 yen for TOPIX Options (meaning the index options pertaining to TOPIX; the same shall apply hereinafter).
4. In relation to index options contracts, the term "issue" (except as used in Rule 40, Paragraph 2) means index put options or index call options that have the same underlying index, exercise date and exercise price.

#### **Rule 15. Contract Months and Number thereof**

1. Index options contracts shall be classified into the contract months in accordance with the classification of the index options for contracts (meaning index options in index options contracts; the same shall apply hereinafter) enumerated in the following items.
  - (1) Nikkei Average Options
    - a. Regular contracts (meaning contract months whose last trading day is the trading day that ends on the day preceding the second Friday of each calendar month; the same shall apply hereinafter)
    - b. Weekly contracts (meaning contract months whose last trading day is the trading day that ends on the day preceding the second Friday (excluding the second Friday of each calendar month, and to be moved up in order if it falls on a non-business day) of each week; the same shall apply hereinafter)
  - (2) TOPIX Options and JPX-Nikkei Index 400 Options
    - Regular contracts
2. The number of contract months and the trading period specified in the preceding paragraph shall be as prescribed in the following relevant item in accordance with the classification of the index options for contracts enumerated in each of the following items.
  - (1) Nikkei Average Options
    - a. Regular contracts

Thirteen contract months (limited to regular contracts) of the specified contract months and the nearest six contract months (limited to regular contracts) other than such specified contract months shall be set. The trading period of each specified contract month shall be five years (one year and six months with respect to each contract month of March and September) and that of each contract month other than the specified contract months shall be nine months.
    - b. Weekly contracts

The nearest four weekly contracts, and the trading period of each weekly contract shall be five or six weeks.
  - (2) TOPIX Options and JPX-Nikkei Index 400 Options

Thirteen contract months of the specified contract months and six contract months other than such specified contract months shall be set. The trading period of each contract month shall be, with respect to the specified contract months, five years (one year and six months with respect to each contract month of March and September) and, with respect to contracts months other than the specified contract months, nine months.
3. The initial trading day when trading in a new contract month begins shall be as prescribed in each of the following items in accordance with the classification of the contract months enumerated in each such item.
  - (1) Regular contracts

It shall be a day following the day on which the last trading day ends for the contract month whose last trading day comes first among contract months prescribed in Item 1, Sub-item a. and Item 2 of the preceding paragraph, and the trading shall start at the time specified by OSE on such day.

(2) Weekly contracts

It shall be a day following the day on which the last trading day ends for the contract month whose last trading day comes first among contract months prescribed in Item 1, b. of the preceding paragraph, and the trading shall start at the time specified by OSE on such day.

4. Notwithstanding the provisions of the preceding three paragraphs, in the case where OSE newly lists index options for contracts and in other cases where OSE deems it necessary, OSE may change the number of contract months and the trading period as well as the last trading day and the initial trading day.

**Rule 16. Exercise Prices and Number thereof**

1. Index options contracts shall be classified into the exercise prices set for each contract month with respect to the index options for contracts.
2. Exercise prices prescribed in the preceding paragraph shall be set at the time specified by OSE of the initial trading day pursuant to the provisions of the following relevant item in accordance with the classification of the index options for contracts enumerated in each of the following items; provided, however, that in cases where OSE deems it necessary, OSE may change the exercise prices and the number thereof.

(1) Nikkei Average Options

a. Regular contracts

With respect to the numerical value of the Nikkei Average in an index options contract, 33 exercise prices shall be set as an integral multiple of 250 yen at 250-yen intervals as specified by OSE.

b. Weekly contracts

With respect to the numerical value of the Nikkei Average in an index options contract, 17 exercise prices shall be set as an integral multiple of 125 yen at 125-yen intervals as specified by OSE.

(2) TOPIX Options

With respect to the numerical value of the TOPIX in an index options contract, 13 exercise prices shall be set as an integral multiple of 50 points at 50-point intervals as specified by OSE.

(3) JPX-Nikkei Index 400 Options

With respect to the numerical value of the JPX-Nikkei Index 400 in an index options contract, 17 exercise prices shall be set as an integral multiple of 500 point at 500-point intervals as

specified by OSE.

3. In addition to the preceding paragraph, as specified by OSE, new exercise prices may be set at the value prescribed in the following relevant item for all or part of contract months in accordance with the classification of the index options for contracts enumerated in each of the following items:

(1) Nikkei Average Options

a. Regular contracts

(a) Regular contracts for which the second Friday of the month in which the time to expiration for such contract month will be three months has not arrived

Integral multiples of 250 yen at 250-yen intervals

(b) Regular contracts other than the regular contracts described in (a) above.

Integral multiples of 125 yen set at 125-yen intervals

b. Weekly contracts

Integral multiples of 125 yen set at 125-yen intervals

(2) TOPIX Options

a. Contract months for which the second Friday of the month in which the time to expiration for such contract month will be three months has not arrived

Integral multiples of 50 points at 50-point intervals

b. Contract months other than the contract months listed in a above

Integral multiples of 25 points set at 25-point intervals

(3) JPX-Nikkei Index 400 Options

a. Contract months for which the second Friday of the month in which the time to expiration for such contract month will be three months has not arrived

Integral multiples of 500 points at 500-point intervals

b. Contract months other than specified contract months listed in a above

Integral multiples of 250 points set at 250-point intervals

## Section 4

### Strategy Trading

#### Rule 17. Strategy Trading

1. A Trading Participant (meaning a Futures, etc. Trading Participant (meaning a Futures, etc.

- Trading Participant defined in Rule 2, Paragraph 2 of the Trading Participant Regulations; the same shall apply hereinafter.) or a Government Bond Futures, etc. Trading Participant (meaning a Government Bond Futures, etc. Trading Participant defined in Rule 2, Paragraph 3 of the Trading Participant Regulations; the same shall apply hereinafter.); the same shall apply hereinafter except in Rules 41 and 54.) may conduct a transaction that simultaneously executes sales or purchases of transactions in multiple contract months or issues pertaining to market derivatives contracts (limited to sales and purchases for the same customer account or its own account) (hereinafter referred to as "strategy trading") in the trading sessions (excluding a closing auction).
2. Combinations of sales or purchases of the transactions in market derivatives contracts executed by strategy sale trading or strategy purchase trading shall be prescribed by OSE by each type of strategy trading specified by OSE; provided, however, that this shall not apply to strategy trading for options contracts.
  3. When conducting strategy trading, a Trading Participant shall make bids or offers using values obtained by the calculation method of the price of strategy trading prescribed by OSE (hereinafter referred to as "strategy price").
  4. With respect to strategy trading, strategy offers shall refer to offers pertaining to strategy sale trading and strategy bids shall refer to bids relating to strategy purchase trading.

### Chapter 3 Trading Session

#### **Rule 18. Division of Trading Sessions and Trading Hours, etc.**

1. Trading sessions for market derivatives trading on the auction market (meaning, among the markets of OSE, markets on which market derivatives trading is conducted by auction) (hereinafter referred to simply as "market derivatives trading" through in this section to in Chapter 5) and trading hours of each trading session shall be set forth in each of the following items according to the classification of the market derivatives trading enumerated in the following items:
  - (1) Government bond futures contracts and government bond futures options contracts

The trading sessions shall be divided into the morning session, afternoon session, and night session, and the trading hours of each trading session shall be as specified in the following a. through c. according to the classification of the trading session.

    - a. Morning session
      - (a) Opening auction  
8:45 a.m.
      - (b) Regular session  
From 8:45 a.m. to 11:00 a.m.

- (c) Closing auction  
11:02 a.m.
- b. Afternoon session
  - (a) Opening auction  
12:30 p.m.
  - (b) Regular session  
From 12:30 p.m. to 3:00 p.m.
  - (c) Closing auction  
3:02 p.m.
- c. Night session
  - (a) Opening auction  
3:30 p.m.
  - (b) Regular session  
From 3:30 p.m. to 5:25 a.m. on the following day
  - (c) Closing auction  
5:30 a.m. on the following day

(2) Index futures contracts and index options contracts

The trading sessions shall be divided into the day session and night session, and the trading hours of each trading session shall be as specified in the following a. and b. according to the classification of the trading session; provided, however, that the trading sessions for index futures contracts whose underlying index is the TAIEX shall only be the day session.

- a. Day session
  - (a) Opening auction  
Opening auction shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):
    - (i) Index futures contracts (excluding index futures contracts enumerated in (ii)).  
8:45 a.m.
    - (ii) Index futures contracts based on the Nikkei 225 VI and index option contracts  
9:00 a.m.
  - (b) Regular session  
Regular session shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):
    - (i) Index futures contracts (excluding index futures contracts enumerated in (ii)).  
From 8:45 a.m. to 3:10 p.m.
    - (ii) Index futures contracts based on the Nikkei 225 VI and index option contracts  
From 9:00 a.m. to 3:10 p.m.
  - (c) Closing auction

3:15 p.m.

b. Night session

(a) Opening auction

4:30 p.m.

(b) Regular session

Regular session shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):

(i) Index futures contracts (excluding those enumerated in (ii)) and index options contracts

From 4:30 p.m. to 5:25 a.m. on the following day

(ii) Index futures contracts based on the Nikkei 225 VI

From 4:30 p.m. to 6:55p.m.

(c) Closing auction

Closing auction shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):

(i) Index futures contracts (excluding those enumerated in (ii)) and index options contracts

5:30 a.m. on the following day

(ii) Index futures contracts based on the Nikkei 225 VI

7:00 p.m.

(3) Security options contracts

The trading sessions shall be divided into the morning session and afternoon session, and the trading hours of each trading session shall be as specified in the following a. and b. according to the classification of the trading session.

a. Morning session

(a) Opening auction

9:00 a.m.

(b) Regular session

From 9:00 a.m. to 11:30 a.m.

(c) Closing auction

11:35 a.m.

b. Afternoon session

(a) Opening auction

12:30 p.m.

(b) Regular session

From 12:30 p.m. to 3:10 p.m.

(c) Closing auction

3:15 p.m.

2. OSE may, when it deems necessary, temporarily change the trading hours prescribed in the preceding paragraph. In this case, OSE shall give advance notice to that effect to Trading Participants.

**Rule 19. Non-business Days**

1. OSE shall have the days specified in each of the following items as its non-business days:
  - (1) Sundays;
  - (2) National holidays;
  - (3) If a national holiday falls on Sunday, the first non-national holiday after that national holiday;
  - (4) The day between two national holidays;
  - (5) Saturdays;
  - (6) The first three (3) days of the year; and
  - (7) December 31
2. OSE may have an extraordinary non-business day, when it deems this necessary. In this case, OSE shall give advance notice to that effect to Trading Participants.
3. Trading (including the J-NET trading set forth in Rule 2, Item 1 of the Special Rules for the Business Regulations and Brokerage Agreement Standards relating to the J-NET Market (hereinafter referred to as the "Special Rules for J-NET Market")(hereinafter referred to as "J-NET trading")) shall not be conducted on a non-business day (meaning the non-business day prescribed in Paragraph 1, and including the extraordinary non-business day prescribed in the preceding paragraph; the same shall apply hereinafter); provided, however, that this shall not apply to trading hours prescribed in Paragraph 1, Item 2 of the preceding rule (including the trading hours of J-NET trading prescribed in Rule 4, Paragraph 1, Item 1 of the Special Rules for J-NET Market) in cases where the closing of a trading session on a trading day falls upon a non-business day.

**Rule 20. Temporary Suspension and Temporary Conducting of Trading Session**

OSE may temporarily suspend a trading session in whole or in part or temporarily conduct an additional trading session in whole or in part, when it deems this necessary.

**Rule 21. Notice of Temporary Suspension or Temporary Conducting of Trading Session**

When OSE declares a temporary suspension of a trading session or temporary conducting of an additional trading session, it shall give advance notice to that effect to Trading Participants.

**Rule 22. Trading through Trading Systems**

1. Market derivatives trading during trading sessions shall be conducted through the trading systems

- using computers, etc. set up by OSE (hereinafter referred to as "trading systems").
2. Indication of prices of index options shall be as prescribed in the relevant items in accordance with the classification of the index options for contracts enumerated in each of the following items:
    - (1) Nikkei Average Options  
One yen shall be equivalent to 1,000 yen.
    - (2) TOPIX Options  
One point shall be equivalent to 10,000 yen.
    - (3) JPX-Nikkei Index 400 Options  
One point shall be equivalent to 1,000 yen.

## **Chapter 4**

### **Market Derivatives Trading on the Auction Market**

#### **Section 1**

##### **Methods of Contract Formation, etc.**

#### **Rule 23. Principle of Auction**

1. Market derivatives trading shall be conducted by auction.
2. Priority of bids and offers in an auction shall be as specified in each of the following items.
  - (1) A lower offer shall have priority over higher offers, and a higher bid shall have priority over lower bids.
  - (2) For priority of bids and offers made at the same price, the bids or offers earlier shall have priority over bids or offers made later.
  - (3) A market order shall have priority over other bids and offers in terms of price.
3. In applying the provisions of the preceding paragraph to strategy trading, the terms "price" in the preceding paragraph shall be read as "strategy price," "offer" shall be read as "strategy offer," and "bid" shall be read as "strategy bid."

#### **Rule 24. Individual Auction**

1. Trading by auction prescribed in Paragraph 1 of the preceding rule shall be on an individual auction basis.
2. Except for the cases prescribed in Paragraph 4, the individual auction in a regular session shall be carried out by matching each order individually according to the priority of orders specified in Paragraph 2 of the preceding rule at such contract price (including contract value defined in Rule 4, Item 5, a.(b) and b. of the same item; the same shall apply in this chapter and Rule 55) that the lowest offer and the highest bids are matched through competition among bids, among offers and between bids and offers.

3. The individual auction in an opening auction or in a closing auction shall be carried out by matching each order individually according to the priority of bids and offers specified in Paragraph 2 of the preceding rule at a contract price enumerated in each of the following items through competition among bids, among offers and between bids and offers.
  - (1) The price where bids and offers match among the prices that are integral multiples of the minimum fluctuation of bids and offers falling within the range between (a) the lowest price that is an integral multiple of the minimum fluctuation of bids and offers from the prices that are higher than the highest price for orders in the book and (b) the highest price that is an integral multiple of the minimum fluctuation of bids and offers from the prices that are lower than the lowest price for orders in the book
  - (2) In the event multiple prices match the conditions in the preceding item, the price where the traded volume is the largest at the execution of the transaction
  - (3) In the event multiple prices match the conditions in the preceding item, the price where the difference (hereinafter referred to as "imbalanced volume") is smallest between (a) the sum total of all market offers and offers equal to and lower than said price and (b) the sum total of all market bids and bids equal to and higher than said price.
  - (4) In the event multiple prices match the conditions in the preceding item:
    - a. When the imbalanced volume in all the prices becomes selling on balance, the lowest price
    - b. When the imbalanced volume in all the prices becomes buying on balance, the highest price
    - c. When neither the preceding a. or b. applies:
      - (a) When the highest price among said prices (limited to the lowest price among the prices where the imbalanced volume becomes selling on balance and the highest price among the prices where the imbalanced volume becomes buying on balance, when the prices of buying on balance and selling on balance are included in the prices where the imbalanced volume is minimum; the same shall apply hereinafter in this c) is equal to or less than the immediately preceding contract price (or, in the event there is no contract price on said trading day, the base price for the price limits on bids and offers; the same shall apply hereinafter in this c), the said highest price
      - (b) When there is an immediately preceding contract price between the lowest price and highest price of said prices, the said immediately preceding contract price
      - (c) When the lowest price among said prices is equal to or higher than the immediately preceding contract price, the said lowest price
4. When determining a contract price at the time of resumption after the halt in the event that trading is halted as stipulated by OSE or when OSE deems it necessary from the status of bids and offers, the individual auction according to the provisions of the preceding paragraph shall be carried out.
5. Notwithstanding the provisions of Paragraph 3, no transaction shall be effected when the price of

- transactions to determine a contract price in a closing auction exceeds the limit of price fluctuation range prescribed by OSE based on the reference price prescribed by OSE.
6. In applying the provisions of Paragraph 2 through Paragraph 4 to strategy trading, the terms "contract price" shall be read as "contract strategy price," "price" shall be read as "strategy price," "offer" shall be read as "strategy offer," "bid" shall be read as "strategy bid" and "the base price for the price limits on bids and offers" shall be read as "the price prescribed by OSE on a case-by-case basis."
  7. When strategy trading is executed, the contract price pertaining to the sale or purchase of the market derivatives trading executed according to the combination shall be stipulated by OSE based on the contract price of strategy trading.

#### **Rule 25. Cancellation of Transactions**

1. In cases where a transaction is effected due to an erroneous order, if OSE deems that the settlement thereof is extremely difficult and the market is likely to be confused, OSE may cancel the transaction specified by OSE.
2. In cases where transaction records in the OSE's systems are lost due to natural disaster or other unavoidable reasons, if OSE deems it difficult to restore all the lost records, OSE may cancel transactions which it designates on a case-by-case basis.
3. In cases where OSE cancels transactions pursuant to the provisions of the preceding two paragraphs, such transactions shall be deemed as if it were never effected at all.
4. Even in cases where a Trading Participant suffers damage because OSE cancels a transaction pursuant to the provisions of Paragraph 1, the Trading Participant shall be unable to claim for compensation for the damage against the Trading Participant that has placed an erroneous order; provided, however, that the same shall not apply to cases where deliberate action or gross negligence is deemed to have been seen in a Trading Participant.
5. In cases where a Trading Participant suffers damage because OSE cancels a transaction pursuant to the provisions of Paragraph 1 or Paragraph 2, the Trading Participant shall be unable to claim for compensation for the damage against OSE; provided, however, that the same shall not apply to cases where deliberate action or gross negligence is deemed to have been seen in OSE.

### **Section 2**

#### **Bids and Offers and Trading Unit**

##### **Rule 26. Bids and Offers**

1. A Trading Participant shall make a bid or offer when it intends to conduct market derivatives trading. In this case, the Trading Participant shall clearly inform OSE whether such bid or offer is made for its customer account or for its own account.
2. Bids and offers in the preceding item shall be made by inputting such bids and offers using the

Trading Participant Terminal Device.

3. A Trading Participant may make bids and offers during the periods specified in the following relevant item in accordance with the classification of the market derivatives trading enumerated in the following items; provided, however, that bids and offers for strategy trading may only be made in an opening auction and a regular session.

(1) Government bond futures contracts and government bond futures options contracts

a. Morning session

(a) Opening auction

Between 8:00 a.m. and 8:45 a.m.

(b) Regular session

Between 8:45 a.m. and 11:00 p.m.

(c) Closing auction

Between 11:00 a.m. and 11:02 a.m.

b. Afternoon session

(a) Opening auction

Between 12:05 p.m. and 12:30 p.m.

(b) Regular session

Between 12:30 p.m. and 3:00 p.m.

(c) Closing auction

Between 3:00 p.m. and 3:02 p.m.

c. Night session

(a) Opening auction

Between 3:25 p.m. and 3:30 p.m.

(b) Regular session

Between 3:30 p.m. and 5:25 a.m. on the following day

(c) Closing auction

Between 5:25 a.m. and 5:30 a.m. on the following day

(2) Index futures contracts and index options contracts

a. Day session

(a) Opening auction

Opening auction shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):

(i) Index futures contracts (excluding index futures contracts among the contracts enumerated in (ii))

Between 8:00 a.m. and 8:45 a.m.

(ii) Index futures contracts based on the Nikkei 225 VI and index option contracts

Between 8:00 a.m. and 9:00 a.m.

(b) Regular session

Regular session shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):

(i) Index futures contracts (excluding index futures contracts enumerated in (ii))

Between 8:45 a.m. and 3:10 p.m.

(ii) Index futures contracts based on the Nikkei 225 VI and index option contracts

Between 9:00 a.m. and 3:10 p.m.

(c) Closing auction

Between 3:10 p.m. and 3:15 p.m.

b. Night session

(a) Opening auction

Between 4:15 p.m. and 4:30 p.m.

(b) Regular session

Regular session shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):

(i) Index futures contracts (excluding those enumerated in (ii)) and index options contracts

Between 4:30 p.m. and 5:25 a.m. on the following day

(ii) Index futures contracts based on the Nikkei 225 VI

Between 4:30 p.m. and 6:55 p.m.

(c) Closing auction

Regular session shall be as specified in the following (i) and (ii) according to the classification of the market derivatives trading enumerated in (i) and (ii):

(i) Index futures contracts (excluding those enumerated in (ii)) and index options contracts

On the following day, between 5:25 a.m. and 5:30 a.m.

(ii) Index futures contracts based on the Nikkei VI

Between 6:55 p.m. to 7:00 p.m.

(3) Security options contracts

a. Morning session

(a) Opening auction

Between 8:00 a.m. and 9:00 a.m.

(b) Regular session

Between 9:00 a.m. and 11:30 a.m.

(c) Closing auction

Between 11:30 a.m. and 11:35 a.m.

b. Afternoon session

- (a) Opening auction
    - Between 12:05 p.m. and 12:30 p.m.
  - (b) Regular session
    - Between 12:30 p.m. and 3:10 p.m.
  - (c) Closing auction
    - Between 3:10 p.m. and 3:15 p.m.
4. Notwithstanding the provisions of the preceding paragraph, OSE shall determine on a case-by-case basis the period during which bids and offers can be made in the event that trading hours are changed pursuant to Rule 18, Paragraph 2 or that trading is halted as specified by OSE.
  5. When bids and offers prescribed in Paragraph 3 are made, OSE shall immediately record the particulars thereof through the OSE trading systems according to their priority.
  6. Bids and offers shall be made with a validity condition or an executed volume condition stipulated by OSE.
  7. A Trading Participant may add conditions stipulated by OSE to bids and offers; provided, however, that this shall not apply in cases where any malfunction in the operation of the trading systems has occurred or in other cases where OSE deems it necessary.
  8. The minimum fluctuation of bids and offers shall be as prescribed in the following relevant item in accordance with the classification of the market derivatives contracts enumerated in each of the following items:
    - (1) Government bond futures contracts
      - a. Large contract
        - 0.01 yen per 100-yen face value.
      - b. Mini contract
        - 0.005 yen
    - (2) Index futures contracts
      - a. Nikkei Average
        - (a) Large contract
          - 10 yen (or 1 yen for strategy trading)
        - (b) Mini contract
          - 5 yen (or 1 yen for strategy trading)
      - b. TOPIX
        - (a) Large contract
          - 0.5 points (or 0.1 points for strategy trading)
        - (b) Mini contract
          - 0.25 points (or 0.05 points for strategy trading)
      - c. JPX-Nikkei Index 400 and FTSE China 50 Index
        - 5 points (or 1 point for strategy trading)

d. TSE Mothers Index, RNP Index, TOPIX Core30, and TSE REIT Index

0.5 points (or 0.1 points for strategy trading)

e. TOPIX Banks Index

0.1 points

f. DJIA ,Nifty 50 and TAIEX

1 point

g. Nikkei 225 VI

0.05 points (or 0.01 points for strategy trading)

h. Nikkei Average Dividend Index

0.1 yen

i. TOPIX Dividend Index and TOPIX Core30 Dividend Index

0.01 points

(3) Security options contracts

a. The minimum fluctuation of bids and offers in security options trading shall be as prescribed below per underlying security according to the price of bids and offers in security options contracts; provided, however, that it shall be 0.1 yen for strategy trading.

Price of bids and offers	Minimum fluctuation of bids and offers
Less than 50 yen	0.1 yen
50 yen or more but less than 1,000 yen	0.5 yen
1,000 yen or more but less than 3,000 yen	1 yen
3,000 yen or more but less than 30,000 yen	5 yen
30,000 yen or more but less than 50,000 yen	25 yen
50,000 yen or more but less than 100,000 yen	50 yen
100,000 yen or more but less than 1,000,000 yen	500 yen
1,000,000 yen or more	5,000 yen

b. In applying the provisions of the preceding paragraph to transactions in the security options contract pertaining to an underlying security whose number of trading units is an odd number, with respect to the minimum fluctuation of bids and offers in security options trading applicable to the underlying security which is less than 50 yen, "0.1 yen" shall be "1 yen," and in the case of such a security which is 50 yen or more, but less than 1,000 yen, "0.5 yen" shall be "1 yen." However, in cases of strategy trading pertaining to such underlying security, it shall be 1 yen.

(4) Government bond futures options contracts

0.01 yen per face value of 100 yen of the underlying issue of the government bond futures transaction to be executed by exercise

(5) Index options contracts

- a. Nikkei Average Options
    - 1 yen for bids and offers of 50 yen or less, 5 yen for bids and offers of more than 50 yen to 1,000 yen or less, and 10 yen for bids and offers of more than 1,000 yen (or 1 yen for strategy trading)
  - b. TOPIX Options
    - 0.1 points for bids and offers of 20 points or less, and 0.5 points for bids and offers of more than 20 points (or 0.1 points for strategy trading)
  - c. JPX-Nikkei Index 400 Options
    - 1 point for bids and offers of 50 point or less, and 5 points for bids and offers of more than 50 points (or 1 point for strategy trading)
9. Bids and offers in large contracts for government bond futures contracts shall be made by flat quotation.
  10. Bids and offers shall not be made at prices exceeding the price fluctuation range prescribed by OSE; provided, however, this shall not apply in cases where bids and offers are made for strategy trading.
  11. When a Trading Participant intends to make bids and offers, it shall not be required to clarify the classification of new sale or new purchase, or resale or repurchase.
  12. In addition to those prescribed in these Regulations, matters necessary for bids and offers shall be prescribed by OSE.

**Rule 27. Request for Quotes**

1. A Trading Participant may, when intending to execute a transaction, request bids and offers (hereinafter referred to as "request for quotes") using a Trading Participant Terminal Device.
2. In the event that OSE deems that there is, or is likely to be, abnormality in the situation of request for quotes, or deems that it is inappropriate to continue request for quotes for the purpose of administration of transactions, OSE may suspend the provision of request for quotes.
3. In addition to those specified in the preceding two paragraphs, matters necessary for requests for quotes shall be stipulated by OSE separately.

**Rule 28. Implied Function**

1. For the types of strategy trading specified by OSE, OSE may treat bids and offers for strategy trading as bids and offers for market derivatives trading subject to said strategy trading according to the status of said strategy trading and subject to said strategy trading; provided, however, that this shall not apply in cases where any malfunction in the operation of the trading systems has occurred or in other cases where OSE deems it necessary.
2. Notwithstanding the provisions of Rule 23, the priority of the bids and offers for market derivatives trading in the preceding paragraph shall be determined by OSE on a case-by-case

basis.

**Rule 29 . Trading Unit**

1. The trading unit shall be as prescribed in the following relevant item in accordance with the classification of the market derivatives contracts enumerated in each of the following items:

(1) Government bond futures contracts

a. Large contract

A face value of 100 million yen

b. Mini contract

An amount obtained by multiplying 100,000 yen by the numerical value of the price of the standardized long-term government bond.

(2) Index futures contracts

The unit of trading in index futures contracts shall be obtained by multiplying the amount prescribed in the following a. through e. by the numeric value of the underlying index in accordance with the classification of the underlying indices enumerated in the following a. through e.:

a. Nikkei Average

(a) Large contract

1,000 yen

(b) Mini contract

100 yen

b. TOPIX

(a) Large contract

10,000 yen

(b) Mini contract

1,000 yen

c. JPX-Nikkei Index 400

100 yen

d. RNP Index, TOPIX Banks Index, Nikkei 225 VI, TOPIX Dividend Index, and TOPIX

Core 30 Index

10,000 yen

e. TSE Mothers Index, TOPIX Core30, TSE REIT Index, and Nikkei Average Divided Index

1,000 yen

f. DJIA, Nifty 50, TAIEX and FTSE China 50 Index

100 yen

(3) Security options contracts

The minimum unit of trading shall be one unit of a security put option or security call option.

(4) Government bond futures options contracts

The minimum unit of trading shall be one unit of a government bond futures put option or government bond futures call option.

(5) Index options contracts

The minimum unit of trading shall be one unit of an index put option or an index call option per index option for contracts.

### Section 3

#### Confirmation of Transactions, etc.

##### **Rule 30. Announcement of Contract Prices**

OSE shall, when a transaction has been effected in market derivatives contracts, announce the contract price.

##### **Rule 31. Reporting and Confirmation of Transactions**

1. OSE shall, when a transaction has been effected in market derivatives contracts, immediately report the details of the transaction through the trading systems to the selling and buying Trading Participant.
2. A Trading Participant shall, upon receipt of reports on the details of the transaction through the Trading Participant Terminal Device with respect to market derivatives contracts, immediately confirm the details of the transaction.

### Section 4

#### Suspension of Trading, etc.

##### **Rule 32. Suspension of Trading**

OSE may suspend trading in all or part of market derivatives contracts in the cases enumerated in each of the following items, in accordance with the provisions specified by OSE:

- (1) In cases where trading in the underlying security is suspended pursuant to Rule 29 (excluding Item 4) of the Business Regulations or Rule 19 (excluding Item 4) of the Special Regulations of Business Regulations and Brokerage Agreement Standards Concerning ToSTNeT Market of TSE (in cases where a measure equivalent thereto is taken on the designated market, if the designated market is not the financial instruments exchange market established by TSE.
- (2) In cases where the issuer of the underlying security undertakes a shareholder directed spin-off.
- (3) In cases where OSE deems that there is, or is likely to be, abnormality in the trading situation and deems that it is inappropriate to continue trading for the purpose of administration of

transactions.

- (4) In cases where OSE deems it difficult to continue trading through the OSE trading systems due to problems in the trading systems operations, etc.

### **Rule 33. Temporary Trading Halt**

1. In the event that, with respect to trading in the central contract month (meaning a contract month designated by OSE as the one having the most liquidity among the contract months for futures trading whose underlying issue (meaning standardized government bond that is the subject of government bond futures contracts; the same shall apply hereinafter) or underlying index is the same as said central contract month; the same shall apply hereinafter) for futures trading (excluding trading in mini contracts and index futures contracts based on the TAIEX) in a regular session, bids or offers have been made at a price specified in each of the following items and no transaction (excluding a transaction effected by strategy trading) is executed outside the range specified by OSE during the time prescribed by OSE, OSE shall temporarily halt trading in the futures contracts whose underlying issue or underlying index is the same as said central contract month for the period deemed appropriate by OSE from the time specified by OSE on a case-by-case basis immediately after such event has occurred; provided, however, in the cases prescribed by OSE and the cases where OSE deems that it is inappropriate to conduct temporary halt of trading based on the trading situation, etc., OSE has a discretion not to conduct temporary halt of trading.
  - (1) For offers, the lowest price of the price limit pursuant to the provisions of Rule 26, Paragraph 10 (hereinafter referred to as "price limit on bids and offers") (including the lowest price after the price limit on bids and offers has been expanded pursuant to the provisions of the following paragraph)
  - (2) For bids, the highest price of the price limit on bids and offers (including the highest price after the price limit on bids and offers has been expanded pursuant to the provisions of the following paragraph)
2. OSE shall, when temporarily halting trading pursuant to the preceding paragraph, expand the price limit on bids and offers for futures contracts whose underlying issue or underlying index is the same as such central contract month as specified in each of the following items:
  - (1) In cases falling under Item 1 of the preceding paragraph:

The lower limit of the price limit on bids and offers shall be expanded as stipulated by OSE.
  - (2) In cases falling under Item 2 of the preceding paragraph:

The upper limit of the price limit on bids and offers shall be expanded as stipulated by OSE.
3. In the event that OSE has temporarily halted trading in large contracts for standardized long-term government bonds pursuant to the preceding paragraph, OSE shall temporarily halt trading in mini contracts for the duration of the trading halt of such large contracts. In such case, the price

- limit on bids and offers for mini contracts shall be expanded as specified by OSE.
4. In the event that OSE has temporarily halted trading in government bond futures contracts or index futures contracts pursuant to Paragraph 1, OSE shall temporarily halt trading in the government bond futures options contracts or the index options contracts whose underlying issue or underlying index is the same as the government bond futures contracts or the index futures contracts for the duration of the trading halt of such government bond futures options contracts or such index futures contracts.
  5. When OSE accepts bids or offers that will be matched beyond the price fluctuation range prescribed by OSE from the price prescribed by OSE as a reference (referred to as the "reference price" in the following paragraph) for each contract month or issue of market derivatives contracts, OSE shall temporarily halt trading in said contract month or issue for the period deemed appropriate by OSE from the time all transactions have been executed in said price fluctuation range.
  6. In cases where OSE has halted trading pursuant to the preceding paragraph (including cases where it has halted trading pursuant to this paragraph) and bids or offers are matched at a price beyond the price fluctuation range prescribed by OSE from the reference price after the period deemed appropriate by OSE, it shall update such reference price to the price of the limit of such price fluctuation range in accordance with the provisions specified by OSE, and OSE shall continue to halt trading for a period deemed appropriate by OSE.
  7. When OSE temporarily halts trading in accordance with the provisions of each of the preceding paragraphs (excluding Paragraph 2), OSE shall temporarily halt strategy trading, through which a sale or purchase of the market derivatives contracts is effected, for the duration of the temporary trading halt.

## **Chapter 4-2**

### **Position Transfer**

#### **Rule 33-2. Position Transfer**

1. In these Regulations, an affiliate foreign exchange means an entity which operates a foreign financial instruments market (meaning a market which is similar to a financial instruments exchange market and located in a foreign country) specified by OSE and which has concluded an arrangement pertaining to position transfers (meaning position transfers prescribed in Rule 33-4, Paragraph 2; the same shall apply hereinafter).
2. In these Regulations, an affiliate foreign clearing institution means an entity which conducts the same type of business as financial instruments obligation assumption related to affiliate foreign market derivatives transactions which are effected on an affiliate foreign exchange.
3. In these Regulations, an affiliate foreign exchange, etc. means an affiliate foreign exchange or affiliate foreign clearing institution.

4. In these Regulations, an affiliate foreign market derivatives transaction means a transaction specified by OSE which is a foreign market derivatives transaction effected on an affiliate foreign exchange.
5. In these Regulations, a Foreign Clearing Participant means a clearing participant of an affiliate foreign exchange, etc.
6. In these Regulations, a member-link agreement is an agreement to execute position transfers that is concluded between a Trading Participant and a Foreign Clearing Participant in a form specified by OSE.

**Rule 33-3. Notification of Conclusion of Member-link Agreement, etc.**

1. When a Trading Participant intends to conclude a member-link agreement with a Foreign Clearing Participant, such Trading Participant must notify OSE in advance as prescribed by OSE.
2. When a Trading Participant intends to terminate or modify a member-link agreement, such Trading Participant must notify OSE of such details by the fifth business day prior to the date on which such termination or modification occurs.

**Rule 33-4. Execution of Position Transfer**

1. In cases where the details of an unsettled contract related to an affiliate foreign market derivatives transaction (hereinafter referred to as a "foreign position") are transmitted to OSE from an affiliate foreign exchange, etc., OSE shall confirm matters specified by OSE regarding the contents of such details.
2. When OSE confirms and approves the contents of such details prescribed in the preceding paragraph, the position transfer shall be executed (meaning execution of a market derivatives transaction specified by OSE through a trading method other than auction trading under the name of a Trading Participant that concludes a member-link agreement with a Foreign Clearing Participant as described in such details; the same shall apply hereinafter).
3. The contract price of the market derivatives transaction executed by position transfer shall be a price specified by OSE.
4. When OSE confirms and approves the contents of such details prescribed in Paragraph 2, it shall notify the affiliate foreign exchange, etc. to that effect.
5. In the cases enumerated in each of the following items, OSE may choose not to give approval prescribed in Paragraph 2. In such cases, no position transfers shall be executed on such trading day:
  - (1) Cases where OSE cannot confirm the matters specified by OSE regarding the contents of such details prescribed in Paragraph 1 by the time specified by OSE on each trading day;
  - (2) Cases where the details prescribed in Paragraph 1 contains description on a Trading Participant that is being suspended from market derivatives trading (excluding that through

- brokerage for clearing of securities, etc.) or the entrustment of brokerage for clearing of securities, etc. on the OSE markets; or
- (3) Other cases where OSE deems the execution of position transfers inappropriate.

**Rule 33-5. Notification of Details of Market Derivatives Transactions Effected by Position Transfer, etc.**

1. Notwithstanding the provisions of Rule 31, when a position transfer is executed pursuant to the provisions of Paragraph 2 of the preceding rule, OSE shall notify the Trading Participant of the details of government bond futures transactions effected by such position transfer, and when a position transfer is not executed pursuant to the provisions of Paragraph 5 of the same rule, OSE shall notify the Trading Participant to that effect.
2. When the Trading Participant receives notification of the details of the market derivatives transaction effected by a position transfer, it shall confirm such details immediately.

**Rule 33-6. Notification of Proprietary or Entrusted**

1. When a position transfer is executed, the Trading Participant shall notify OSE, by the deadline specified by OSE, whether the market derivatives transaction effected by such position transfer is based on a customer's entrustment or for such Trading Participant's proprietary account.
2. A market derivatives transaction for which the notification prescribed in the preceding paragraph is not made shall be deemed by OSE as being based on a customer's entrustment.

## Chapter 5

### Transactions for Error Correction, etc.

**Rule 34. Transactions for Error Correction, etc.**

1. In the event that a Trading Participant has failed to execute a customer's order for market derivatives contracts on the OSE markets under his/her instructions due to errors, etc. by truly unavoidable reasons, such Trading Participant may, in accordance with the provisions of OSE, with the prior approval of OSE, execute a sale or purchase at a price recognized as reasonable by OSE for its proprietary account as a counterparty to such transaction outside auction trading.
2. The settlement of a sale or purchase in the preceding paragraph shall be made on the day that would be the settlement day if the sale or purchase had been executed in accordance with the original instructions of the customer.
3. In applying the provisions of the preceding two paragraphs to strategy trading, the terms "sale" and "purchase" in the preceding two paragraphs shall be read as "strategy sale trading" and "strategy purchase trading" respectively, and the term "price" in Paragraph 1 shall be read as

"strategy price."

## **Chapter 5-2**

### **Government Bond Futures Transactions Concluded by Exercise**

#### **Rule 34-2. Government Bond Futures Transactions Concluded by Exercise**

When a Trading Participant has given notice of exercise of a government bond futures options contract, it shall be considered that the intention of such exercise has been expressed at such time on the day of the notice as specified by OSE, and a transaction in a government bond futures contract shall be effected at such time.

## **Chapter 6**

### **Settlement by Delivery, Final Settlement, etc.**

#### **Section 1**

#### **Settlement by Delivery for Government Bond Futures Contracts, etc.**

##### **Sub-Section 1**

##### **Settlement by Delivery for Large Contracts**

#### **Rule 34-3. Settlement by Delivery**

For each contract month of large contracts, the final short position (meaning the short position for which no repurchase has been made by the last trading day; the same shall apply hereinafter) or the final long position meaning the long position for which no resale has been made by the last trading day; the same shall apply hereinafter) shall be settled by delivery (meaning settlement effected by payment/receipt of the amount of the consideration for settlement by delivery of or payment for government bonds; the same shall apply hereinafter) on the date of settlement by delivery for the contract month.

#### **Rule 34-4. Deliverable Bonds**

For settlement by delivery/payment, government bonds enumerated in each of the following items (hereinafter referred to as "deliverable bonds") shall be treated as deliverable grade.

- (1) For standardized mid-term government bonds, coupon-bearing government bonds (limited to those that have been issued as government bonds and as a part or the whole of their total issue amount through syndicate underwriting for public offering, public offering auction or other methods permitting acquisition by a large unspecified number of persons; the same

shall apply hereinafter) with remaining maturity of 4 years or more but less than 5 years and 3 months both on the issue date (meaning the issue date of coupon-bearing government bonds with the same name and of the same issue number, and in addition, in cases where there have been coupon-bearing government bonds issued previously, the issue date of such coupon-bearing government bonds with such same name and of such same issue number that have the earliest issue date; the same shall apply hereinafter) and on the day of settlement by delivery/payment, and also whose issue date falls in a month that is three or more months prior to the month in which the date of settlement by delivery falls.

- (2) For standardized long-term government bonds, coupon-bearing government bonds with remaining maturity of 7 years or more but less than 11 years both on the issue date and the day of settlement by delivery, and also whose issue date falls in a month that is three or more months prior to the month in which the date of settlement by delivery/payment falls.
- (3) For standardized super long-term government bonds, coupon-bearing government bonds with remaining maturity of 19 years and 3 months or more but less than 21 years both on the issue date and the day of settlement by delivery, and also whose issue date falls in a month that is four or more months prior to the month in which the date of settlement by delivery/payment falls.

**Rule 34-5. Computation of Conversion Factors between Standardized Government Bonds and Deliverable Bonds**

The conversion factors between standardized government bonds and deliverable bonds shall be computed in accordance with the attached "Table for Computation of Conversion Factors between Standardized Government Bonds and Deliverable Bonds."

**Rule 34-6. Price for Settlement by Delivery/Payment**

The price used as a basis for computation of the amount of the consideration to be paid/received for settlement by delivery/payment (hereinafter referred to as "delivery settlement price") shall be the settlement price (meaning a price determined by Japan Securities Clearing Corporation (hereinafter referred to as "JSCC") as the settlement price of a government bond futures contract) on the last trading day for the contract month.

**Rule 34-7. Method of Computation of the Amount of Consideration for Settlement by Physical Delivery/Payment**

The amount of the consideration to be paid/received for settlement by delivery/payment shall be the amount obtained by multiplying the product of the delivery settlement price and the conversion factor calculated for each deliverable bond by one hundredth (1/100) of the total amount of the face value of such deliverable bond.

**Rule 34-8. Pro-rata Calculation of Interest**

For the purpose of settlement by delivery/payment, an amount obtained by computing the product of the total amount of the face value of government bonds for each deliverable bond pertaining to the final short position and the coupon rate of such deliverable bond on a pro-rata basis in accordance with the period up to the date of settlement by delivery/payment (hereinafter referred to as "accrued interest") shall be added to the amount of the consideration for settlement by delivery/payment computed pursuant to the provisions of the preceding rule. However, if the date of settlement by delivery/payment falls on a coupon payment date of the deliverable bond, such accrued interest shall not be added to the amount of the consideration for settlement by delivery/payment.

**Sub-Section 2****Final Settlement for Mini Contracts****Rule 34-9. Final Settlement**

For each contract month of mini contracts, if there are positions for which resales or repurchases have not been made by the last trading day, the settlement based on the final settlement price prescribed in the following rule (hereinafter referred to as the "final settlement") shall be conducted on the day following the day on which the final settlement price is determined pursuant to the following rule (hereinafter referred to as the "final settlement date").

**Rule 34-10. Final Settlement Price**

The final settlement price shall be determined on a day after the day on which the last trading day of mini contracts in the relevant contract month ends and the contract price at the start of the trading session pertaining to large contracts in a contract month (see Note below) for the standardized long-term government bond whose last trading day falls in the same month as said relevant contract month; provided, however, that, where the trading session pertaining to said large contracts in a contract month is halted and OSE deems necessary, the final settlement price shall be determined by OSE on a day specified by OSE on a case-by-case basis.

(Note) If there is no contract price at the start of the trading session on the day following the ending day of the last trading day of said large contracts in a contract month, the price specified by OSE.

**Section 1-2****Final Settlement of Index Futures Contracts****Rule 35. Final Settlement**

For each contract month of index futures contracts, a Trading Participant shall settle the positions for which resales or repurchases have not been made by the last trading day at the final settlement price prescribed in the following rule on the final settlement day for such contract month.

**Rule 36. Final Settlement Price**

1. The final settlement price shall be determined on the day following the day on which the last trading day ends, and shall be a special index (hereinafter referred to as the "special quotation") or value calculated as prescribed in the following relevant item in accordance with the classification of the underlying indices enumerated in each of the following items:

- (1) Nikkei Average, TOPIX, JPX-Nikkei Index 400, TSE Mothers Index, TOPIX Core30, TOPIX Banks Index, and TSE REIT Index

The index calculated based on the contract price of each component issue (or the price specified by OSE for the issues without any contract price on the day following the day on which the last trading day ends) at the opening of the trading session on the financial instruments exchange market established by TSE on the day following the day on which the last trading day ends.

- (2) RNP Index

The stock index calculated based on the contract price of each component issue (or the price specified by OSE for the issues without any contract price on the day following the day on which the last trading day ends) at the opening of the trading session on the primary financial instruments exchange market (meaning the financial instruments exchange market whose stock price is adopted by the index provider to calculate such underlying stock index; the same shall apply in Item 2 of the following paragraph).

- (3) DJIA

The index calculated by S&P Dow Jones Indices LLC as a final settlement price for the contract at the country of origin (meaning the corresponding contract month of index futures contracts based on the DJIA at the foreign financial instruments market established by The Board of Trade of the City of Chicago, Inc. (hereinafter referred to as "CBOT") and whose last trading day belongs to the same month as the contract month of OSE DJIA futures contracts (meaning index futures contracts based on the DJIA traded at the financial instruments market established by OSE).

- (4) Nifty 50

The index calculated by IISL as a final settlement price for the contract at the country of origin (meaning the corresponding contract month of index futures contracts based on the Nifty 50 at the foreign financial instruments market established by NSE and whose last trading day belongs to the same month as the contract month of OSE India Nifty50 futures contracts (meaning index futures contracts based on the Nifty 50 traded at the financial

instruments market established by OSE).

(5) TAIEX

The value calculated by Taiwan Futures Exchange Corporation (hereinafter referred to as “TAIFEX”) as a final settlement price for the contract at the country of origin (meaning the corresponding contract month of index futures contracts based on the TAIEX at the foreign financial instruments market established by TAIEX and whose last trading day belongs to the same month as the contract month of OSE TAIEX futures contracts (meaning index futures contracts based on the TAIEX traded at the financial instruments market established by OSE).

(6) FTSE China 50 Index

The final value of FTSE China 50 Index on the day on which the last trading day ends.

(7) Nikkei 225 VI

The special value calculated over the period prescribed by OSE according to the calculation methodology of the Nikkei 225 VI by using the contract price of index future contracts based on the Nikkei Average and index options contracts pertaining to the Nikkei Average at the opening of the trading session on the day that is 30 days prior to the second Friday of the month immediately following a month with a last trading day.(8) Dividend indices

The index specified by OSE as the final price of the index calculated based on dividend (limited to the dividend whose record date for rights has come in the year preceding the year including a day on which the last trading day ends) amounts of each component stock of the underlying index.

2. Notwithstanding the provisions of the preceding paragraph, OSE shall prescribe on a case-by-case basis the final settlement price in cases where either of the following items applies and OSE deems it necessary on the day prescribed by OSE on a case-by-case basis, in accordance with the classification of the underlying indices enumerated in each of the following items:

(1) Nikkei Average, TOPIX, JPX-Nikkei Index 400, TSE Mothers Index, TOPIX Core30, TOPIX Banks Index and TSE REIT Index

In cases where trading in securities in the trading sessions on the financial instruments exchange market established by TSE is suspended (including the cases where trading in securities is suspended pursuant to the provisions of Rule 29, Item 3 or Item 4 of the Business Regulations stipulated by the TSE) on the day following the day on which the last trading day ends.

(2) RNP Index

In cases where trading in stocks on the primary financial instruments exchange market is suspended (including the cases where trading in stocks is suspended pursuant to the provisions of Item 3 or Item 4 of Rule 29 of the Business Regulations (including the provisions equivalent to such provisions stipulated by the operator of the primary financial

instruments exchange market)) on the day following the day on which the last trading day ends.

(3) DJIA, Nifty 50, and TAIEX

In cases where the final settlement price at the country of origin (meaning the country of origin specified in Item 3 of the preceding paragraph for DJIA, Item 4 of the same paragraph for Nifty 50, and, Item 5 of the same paragraph for TAIEX) is not calculated by the end of the day session on the day following the day on which the last trading day ends.

(4) FTSE China 50 Index

In cases where trading in securities on the foreign financial instruments exchange market established by SEHK is suspended or where the index provider fails to calculate or disseminate the FTSE China 50 Index on the day on which the last trading day ends.

(5) Nikkei 225 VI

In cases where trading in index futures contracts based on the Nikkei Average or index options contracts pertaining to the Nikkei Average is suspended pursuant to the provisions of Rule 32 on the day following the day on which the last trading day ends.

3. Notwithstanding the provisions of Paragraph 1, OSE may, in the event that any error has been found in the special quotation on and before the final settlement day, replace the recalculated special quotation as the final settlement price.
4. Even in cases where a Trading Participant suffers losses due to a failure, a delay or an error in calculating or disseminating an underlying index, or due to a change in the settlement price or final settlement price, the Trading Participant may not claim compensation for such losses against OSE or the index provider (including an entity who is entrusted with the calculation of the index from the index provider).

## Section 2

### Exercise of Options

**Rule 37. Exercise Date, etc.**

1. The exercise date of security options shall be the last trading day of each issue, and the exercise date of index options shall be the day following the day on which the last trading day of each issue ends.
2. The exercise period of government bond futures options shall be the period starting on the initial trading day and ending on the last trading day for each issue.
3. Notwithstanding the provisions of the preceding two paragraphs, OSE may, when it deems necessary, change the exercise date or the exercise period of all or part of issues.
4. Settlement of transactions in underlying securities effected by exercise of security options shall be made on the 4<sup>th</sup> day (excluding non-business days; the same shall apply hereinafter in the calculation of number of days) after the exercise date; provided, however, that if the exercise date

falls on the day immediately preceding the date of ex-dividend, etc. (limited to such day stipulated by the designated exchange and relating to regular transactions; the same shall apply hereinafter) or the date on which trading starts for stock (including investment trust beneficiary certificate and investment security; the same shall apply hereinafter) after the reverse stock split (limited to such day prescribed by the designated exchange and relating to regular transactions; the same shall apply hereinafter), settlement of transactions in underlying securities effected by exercise shall be made on the 3<sup>rd</sup> day after said exercise date.

5. When an index option is exercised, settlement shall be made on the day following the exercise date based on the option settlement price (meaning the option settlement price prescribed in Rule 40).

#### **Rule 38. Suspension of Exercise**

In the event that trading in options contracts is suspended or in cases where OSE deems that it is inappropriate to allow exercise of options for the purpose of administration of transactions, OSE may suspend such exercise for all or part of issues.

#### **Rule 39. Expiration of Options**

1. A security option or an index option shall expire at the time prescribed by OSE if no notification of exercise of such option has been given on the exercise date.
2. A government bond futures option shall expire at the time prescribed by OSE if no notice of exercise of such option has been given on the expiration date of the exercise period (meaning the expiration date of the exercise period prescribed in Rule 37, Paragraph 2; the same shall apply hereinafter).

#### **Rule 40. Option Settlement Price**

1. OSE shall determine option settlement prices for each index options for contracts after the close of the day session on the exercise date.
2. The option settlement price in the preceding paragraph shall be a special index (hereinafter referred to as "special quotation") calculated based on the contract price of each component issue (or the price specified by OSE for the issues without any contract price on the day following the day on which the last trading day ends) of the underlying index at the opening of the trading session on the exercise date on the financial instruments exchange market established by TSE.
3. Notwithstanding the provisions of the preceding paragraph, the option settlement price in cases where the trading in stocks in the trading sessions on the financial instruments exchange market established by the TSE is suspended (including the cases where trading in stocks is suspended pursuant to the provisions of Rule 29, Item 3 or Item 4 of the Business Regulations stipulated by TSE) on the day following the day on which the last trading day ends, shall be determined by

- OSE on a case-by-case basis until the day determined by OSE on a case-by-case.
4. Notwithstanding the provisions of Paragraph 2, OSE may, in the event that any error has been found in the special quotation on and before the day immediately preceding the settlement date pertaining to exercise, replace the recalculated special quotation as the options settlement price.
  5. Even in cases where a Trading Participant suffers losses due to a failure, a delay or an error in calculating or disseminating an underlying index, or due to a change in the option settlement price pursuant to the provisions of the preceding paragraph, the Trading Participant may not claim compensation for such losses against OSE or the index provider (including an entity who is entrusted with the calculation of the index from the index provider).

#### **Rule 41. Loan Trading Effected by Exercise**

1. A Trading Participant (limited to a Futures, etc. Trading Participant that is a General Trading Participant of TSE; the same shall apply in the following paragraph) may execute loan trading for the purpose of completing the settlement (excluding, in the case of exercise effecting transactions by the number of underlying securities prescribed in the first sentence of Rule 12, Paragraph 2, payment/receipt of money prescribed in Rule 17, Paragraph 1, Item 2 b. and Item 3 of the Clearing and Settlement Regulations or Rule 55, Paragraph 1, Item 1 b. and Item 2 of the Business Rules specified by JSCC) pertaining to transactions in the underlying security (limited to such transactions in standardized margin trading or of proprietary sale or purchase on margin) effected by exercise of security options.
2. A Trading Participant shall, when conducted loan trading pursuant to the preceding paragraph, complete the settlement of the margin sales or margin purchases by the third day after the corresponding date in the sixth month (the last day of the month if there is no such corresponding date; to be moved up in order if the corresponding date falls on a non-business day) of the day following the exercise date (the exercise date if the exercise date falls on the day before the date of ex-dividend, etc. (limited to such date prescribed by TSE and relating to regular transactions), the date on which trading starts for stock after the reverse stock split (limited to such day prescribed by the designated exchange and relating to regular transactions) or the day equivalent thereto).
3. The provisions of the Margin/Loan Trading Regulations specified by TSE and other rules relating to margin trading and loan trading shall apply mutatis mutandis to the standardized margin trading in Item 1 and loan trading in each of the preceding paragraphs and administration of these trading.

## **Chapter 7**

### **Give-up**

**Rule 42. Give-up**

1. A Trading Participant may conduct the give-up (meaning an action to bring about the effect prescribed in Paragraph 3 when effected pursuant to the provisions of the following paragraph; the same shall apply hereinafter) with respect to transactions in market derivatives contracts (including transactions for error correction, etc. prescribed in Rule 34 and excluding transactions in government bond futures contracts effected by exercise in government bond futures options contracts; the same shall apply hereinafter in this chapter) in accordance with the provisions of this chapter.
2. Give-up shall be effected when an Order Execution Trading Participant (meaning a Trading Participant making a give-up notification provided in the following paragraph; the same shall apply hereinafter) makes a give-up notification and OSE receives a take-up notification from a Clearing Execution Trading Participant (meaning a Trading Participant making a take-up notification provided in Rule 44, Paragraph 1, Item 1; the same shall apply hereinafter).
3. In cases where give-up is effected, a sale or purchase of market derivatives contracts pertaining to such give-up notification shall be extinguished toward the future and, at the same time, a new sale or purchase of market derivatives contracts with the same detail as the extinguished sale or purchase of market derivatives contracts shall be created under the name of such Clearing Execution Trading Participant; provided, however, that if such Clearing Execution Trading Participant is a Non-Clearing Participant (meaning the Government Bond Futures, etc. Non-Clearing Participant prescribed in Rule 24, Paragraph 2 of the Trading Participant Regulations or the Index Futures, etc. Non-Clearing Participant prescribed in Paragraph 3 of the same rule; the same shall apply hereinafter), a new sale or purchase of market derivatives contracts with the same detail as the extinguished sale or purchase of market derivatives contract shall be created in the name of its Designated Clearing Participant (meaning the Government Bond Futures, etc. Agency Clearing Participant (see Note 1 below) or the Index Futures, etc. Agency Clearing Participant (see Note 2 below) designated by such Non-Clearing Participant pursuant to the provisions of Rule 27, Paragraph 1 of the Trading Participant Regulations) for the account of such Clearing Execution Trading Participant.

(Note 1) The Government Bond Futures, etc. Agency Clearing Participant means an entity that holds the Agency Clearing Qualification (meaning the Agency Clearing Qualification defined in the Business Rules of JSCC; the same shall apply hereinafter) pertaining to a Government Bond Futures, etc. Clearing Qualification (meaning the Government Bond Futures, etc. Clearing Qualification defined in the Business Rules of JSCC).

(Note 2) The Index Futures, etc. Agency Clearing Participant means an entity that holds the Agency Clearing Qualification pertaining to an Index Futures, etc. Clearing Qualification (meaning the Index Futures, etc. Clearing Qualification defined in the

## Business Rules of JSCC).

**Rule 43. Give-up Notification**

1. When a Trading Participant intends to conduct the give-up with respect to the transactions in market derivatives contracts, it shall notify OSE, with a designation of a Clearing Execution Trading Participant, no later than the time prescribed by OSE, through the system designated by OSE, of the details of the transactions in market derivatives contracts to be given up and the matters necessary for the Designated Clearing Execution Trading Participant (meaning the Clearing Execution Trading Participant designated by the Order Execution Trading Participant pursuant to the provisions of this paragraph; the same shall apply hereinafter) to confirm which customer conducts the transactions in market derivatives contracts pertaining to such give-up; provided, however, that a Trading Participant may not make such notifications for the transactions in market derivatives contracts created by give-up.
2. When OSE receives the notification in the preceding paragraph (hereinafter referred to as a "give-up notification"), OSE shall immediately notify the Designated Clearing Execution Trading Participant of the details thereof through the system designated by OSE.

**Rule 44. Take-up Notification, etc.**

1. A Designated Clearing Execution Trading Participant that received the notification pursuant to the provisions of Paragraph 2 of the preceding rule shall make either of the notifications enumerated in the following items to OSE no later than the time prescribed by OSE through the system designated by OSE.
  - (1) In the case where it accepts the settlement of the transactions in market derivatives contracts pertaining to the notification, a notification to that effect (hereinafter referred to as a "take-up notification").
  - (2) In the case where it does not accept the settlement of the transactions in market derivatives contracts pertaining to the notification, a notification to that effect.
2. If neither notification in each item of the preceding paragraph is made by the time prescribed in the preceding paragraph, it shall be deemed that OSE has received the notification in the preceding Item 2 from such Clearing Execution Trading Participant.
3. When OSE receives the notification pursuant to the provisions of Paragraph 1 (including the cases where the notification in Item 2 of Paragraph 1 is deemed to have been made pursuant to the provisions of the preceding paragraph), OSE shall immediately notify the Order Execution Trading Participant that made the relevant give-up notification of the details thereof through the system designated by OSE.

**Rule 45. Retention of Materials**

An Order Execution Trading Participant and a Clearing Execution Trading Participant shall obtain materials (including electromagnetic records) on which the details of give-up that is effected on the current day are recorded from the system designated by OSE, and retain such materials for 10 years thereafter.

**Rule 46 . Emergency Measures in case of Malfunction in Operation of System pertaining to Give-up, etc.**

1. In the event that any malfunction in the operation of the system to conduct give-up has occurred, and if OSE deems it necessary, a give-up notifications or take-up notification may be made by means other than those prescribed in Rule 43 or Rule 44.
2. The means other than those prescribed in Rule 43 or Rule 44 prescribed in the preceding paragraph shall be stipulated by OSE on a case-by-case basis.

**Chapter 8**

**Restrictions on Transactions**

**Rule 47. Regulatory Measures concerning Market Derivatives Trading and Acceptance thereof**

In the event that OSE deems that there is, or is likely to be, abnormality in the situation of market derivatives trading on the OSE markets, OSE may take necessary measures concerning market derivatives trading and acceptance thereof on the OSE markets out of the regulatory measures stipulated in the regulations of OSE.

**Chapter 9**

**Miscellaneous Provisions**

**Rule 48. Notification and Publication to Trading Participants, etc.**

The notification and publication of total trading volume, etc. each day on the OSE markets pursuant to Article 130 of the Act shall be made through the trading systems, etc.; provided, however, that in the event that any malfunction in the operation of the trading systems has occurred or in any other cases where OSE deems it difficult, such notification and publication shall be made in writing.

**Rule 49 . Reporting to the Prime Minister**

Reporting to the Prime Minister of the total trading volume, etc. each day on the OSE markets pursuant to Article 131 of the Act shall be made through an electronic medium; provided, however,

that in the event that any malfunction in the operation of the electronic information media has occurred or in any other cases where OSE deems it difficult, such reporting shall be made in writing.

**Rule 50 . Reporting on the Market Condition**

In cases where it is necessary to continuously report the market condition of OSE to the general public or news media, OSE shall conduct it and no Trading Participant shall carry out an act that is similar to this.

**Rule 51. Method of Market Derivatives Trading on the OSE Markets**

1. A Trading Participant must conduct market derivatives trading on the OSE markets through a Trading Participant Terminal Device, etc. as deemed appropriate by OSE.
2. A Trading Participant must comply with system-interface specifications and other matters specified by OSE with regard to connections between Trading Participant Terminal Devices and the trading systems.
3. A Trading Participant shall report matters with respect to Trading Participant Terminal Devices to OSE in accordance with the provisions specified by OSE as well as cooperate with OSE to ensure and maintain the stability of the trading system.
4. A Trading Participant must appoint a Person Responsible for Market Derivatives Trading (meaning a person who supervises the operation of market derivatives trading on the OSE markets and deals with matters related thereto; the same shall apply hereinafter in this rule) from among the officers in charge of operations for market derivatives trading on the OSE markets or employees who are in a post as a person responsible for that, and shall notify OSE of such person in advance. However, a Government Bond Futures, etc. Trading Participant shall not be required to appoint or notify OSE of the responsible person specified in Item 2.
  - (1) Government bond futures contracts and government bond futures options contracts  
Person Responsible for Government Bond Futures, etc. Trading
  - (2) Index futures contracts, security options contracts, and index options contracts  
Person Responsible for Index Futures, etc. Trading
5. Notwithstanding the provisions of the preceding paragraph, a Futures, etc. Trading Participant that has obtained approval pursuant to Rule 6 of the Trading Participant Regulations shall not be required to appoint and notify OSE of the person defined in Item 1 of the preceding paragraph.
6. Notwithstanding the provisions of Paragraph 4, if OSE determines an additional responsible person is required to handle the specific part of the work of the Person Responsible for Government Bond Futures, etc. Trading or the Person Responsible for Index Futures, etc. Trading, a Trading Participant shall appoint a person responsible for such specific part of the work on behalf of the Person Responsible for Government Bond Futures, etc. Trading or the Person Responsible for Index Futures, etc. Trading, and shall notify OSE of such person in advance.

**Rule 52. Publication of Orders with Errors**

In the event that an order with an error is placed and OSE deems it necessary for the purpose of administration of transactions, OSE may publicize the issue (contract month for futures contracts) pertaining to such order, the name of the Trading Participant that placed such order and other matters prescribed by OSE.

**Rule 53. Delisting of Security Options, etc.**

1. OSE shall, if any of the following items applies, delist the security options stipulated in the relevant item on the day specified by OSE.
  - (1) Where the exchanges listing an underlying security delist the underlying security and such underlying security is no longer listed on any domestic financial instruments exchange.
  - (2) Where the following (a) through (c) apply to transactions in security options contracts pertaining to the same underlying security.
    - a. Where no transaction has been effected on OSE for a period of one year up to the day stipulated by OSE on a case-by-case basis as the base date for determining the applicability of delisting such security options (hereinafter referred to as the y OSE in al in this item) (excluding the security options for which one year has not passed since the listing as of such base date).
    - b. Where OSE deems that it is not necessary to continue listing such security options on such base date.
    - c. Where no transaction is effected on OSE for a period of one month from the day following such base date.
2. In the cases in the preceding paragraph, the contract months of security options contracts for such underlying securities and the number thereof shall be, notwithstanding the provisions of Rule 10, as stipulated separately by OSE.

**Rule 53-2. Reporting of Details of Positions**

1. In the event that the difference between the amount of its short positions and the amount of its long positions in the nearest contract month for large contracts (including a transaction for error correction, etc. specified in Rule 34) for its own account or the difference between the amount of its short positions and the amount of its long positions in the nearest contract month for the account of its customer has, on a trading day specified by OSE, become equal to or greater than the amount subject to reporting as specified by OSE for each issue, the Trading Participant shall report the details thereof to OSE pursuant to the provisions prescribed by OSE.
2. In the event that the amount prescribed in each of the following items in government bond futures options, whose underlying government bond futures contract month is the nearest contract month

of the government bond futures contract (see Note below), for its own account or the amount prescribed in each of the following items in the nearest contract month for the account of its customer has, on a trading day determined by OSE, become equal to or greater than the amount subject to reporting as specified by OSE for each issue designated as the subjects of the transaction contract in government bond futures contract effected by exercise, the Trading Participant shall report the details thereof to OSE pursuant to the provisions prescribed by OSE.

(Note) Such government bond futures options contract includes a transaction for error correction, etc. specified in Rule 34.

- (1) The difference between the short position and the long position in government bond futures put options;
- (2) The difference between the short position and the long position in government bond futures call options; or
- (3) The sum of the difference enumerated in Item 1 and the difference enumerated in Item 2, if, with respect to either one of the differences prescribed in the preceding two items, the short position exceeds the long position, while, with respect to the other difference, the long position exceeds the short position.

#### **Rule 54. Restrictions on Transactions for Proprietary Account and Reporting of Large Position**

1. In cases where a Trading Participant (limited to a Futures, etc. Trading Participant; the same shall apply in this rule) conducts transactions in security options contracts (including transactions for error correction specified in Rule 34; the same shall apply hereinafter in this rule) pertaining to the same underlying securities, the Trading Participant may not conduct a new sale or new purchase or a resale or repurchase that will cause the amount enumerated in the following items for its own account to exceed the upper limit prescribed in Paragraph 3. In such case, if the security option on such underlying security is the subject of a security options contract on a financial instruments exchange market established by another domestic financial instruments exchange, the amount of position pertaining to such security options contracts shall be included in the amount enumerated in each of the following items.

- (1) The difference in the amount between the short position and the long position in security put options;
- (2) The difference in the amount between the short position and the long position in security call options; or
- (3) The sum of the difference specified in Item 1 and the difference specified in the preceding item, if, with respect to either one of the differences enumerated in the preceding two items, the quantity of the short position exceeds that of the long position while, with respect to the other items, the quantity of the long position exceeds that of the short position.

2. Notwithstanding the provisions of each item of the preceding paragraph, in the cases enumerated in each of the following items, the amount specified in the relevant item shall be deducted from the amount specified in each of the items of the preceding paragraph.
  - (1) All or part of the amount in each of the items of the preceding paragraph if it is judged by OSE that the potential risk with respect to such amount arising from changes in the price of such underlying security is eliminated or reduced under the circumstances in which the Trading Participant holds such underlying security or in other circumstances; and
  - (2) The amount of positions pertaining to a sale or purchase transaction in the security options contract pertaining to a security option on such underlying security, if execution of such sale or purchase transaction was deemed necessary in order to execute a customer order
3. The upper limit prescribed in Paragraph 1 shall be trading units (rounding down the figures less than 100 units) constituting the number of securities equivalent to 1% (0.7% for underlying securities whose total annual trading volume on the financial instruments exchange markets established by the exchange listing the underlying security for a period of one year ending on March 31 (hereinafter in this paragraph and Paragraph 6 referred to as the "base date") (or an amount specified by OSE on a case-by-case basis in consideration of the recent trading volume of the underlying security if the listing date of the underlying security is later than the corresponding date of the base date in the previous year) is less than 10% of the number of listed securities) of the number of listed shares of the underlying security as of the base date, and such upper limit shall be, in principle, valid for a period of one year starting on the base date or a later date specified from time to time by OSE.
4. Notwithstanding the provisions of the preceding paragraph, in cases where OSE deems it necessary in view of the circumstances in which there was a change in the position pursuant to the Business Rules of JSCC, the current status of trading in the underlying security, etc., OSE may determine the upper limit on a case-by-case basis in consideration of the number of listed shares of the underlying security, trading units, and other matters.
5. In cases where the amount enumerated in each item of Paragraph 1 (the amount calculated by deducting the amount specified in Paragraph 2, Item 1, if the conditions specified therein are met; the same shall apply hereinafter in this paragraph.) for a Trading Participant's own account or such amount based on orders accepted from a customer reached or exceeded the amount specified by OSE as the amount subject to reporting, the Trading Participant shall report the details of the amount to OSE in accordance with the provisions specified by OSE.
6. The number of listed shares specified in Paragraph 3 shall be, if the listing date of the underlying security is later than the base date, the number of listed shares as of the date specified by OSE on a case-by-case basis, and, in the case where there is a change in the position pursuant to the Business Rules of JSCC due to the stock split or gratis allotment of shares and no additional securities are issued as of the base date, the number of such additional securities shall be added.

**Rule 55. Delivery of Reports Concerning Transactions**

1. A Trading Participant shall send every month to its customer who has an unsettled market derivatives contract (including a transaction for error correction, etc. prescribed in Rule 34) a report stating the matters enumerated in the following items:
  - (1) Matters specified in the relevant category in accordance with the classification of the market derivatives contracts in the following (a) through (e)
    - a. Government bond futures contracts
      - (a) Issue
      - (b) Contract month
    - b. Index futures contracts
      - (a) Underlying index
      - (b) Large contract or mini contract for index futures contracts on Nikkei Average and TOPIX
      - (c) Contract month
    - c. Security options contracts
      - (a) Underlying security
      - (b) Quantity of an underlying security for one trading unit of the security option
      - (c) Security put option or security call option
      - (d) Contract month
      - (e) Exercise price
    - d. Government bond futures options contracts
      - (a) Underlying issue of the government bond futures contract effected by exercise
      - (b) Government bond futures put option or government bond futures call option
      - (c) Contract month
      - (d) Exercise price
    - e. Index options contracts
      - (a) Underlying index
      - (b) Index put option or index call option
      - (c) Contract month
      - (d) Exercise price
  - (2) Sale or purchase
  - (3) Amount of contracts (face value of large contracts with respect to government bond futures)
  - (4) Contract price
  - (5) Trade execution date
  - (6) Matters specified in the relevant category in accordance with the classification of the market derivatives contracts in the following (a) through (d)

- a. Government bond futures contracts and index futures contracts  
Day on which the last trading day of the relevant contract month ends
  - b. Security options contracts  
Last trading day and exercise date of the relevant contract month ends
  - c. Government bond futures options contracts  
Day on which the last trading day ends and expiration date of the exercise period of the relevant contract month
  - d. Index options contracts  
Day on which the last trading day ends and exercise date of the relevant contract month
2. In the case where a customer is a financial instruments business operator that is a member of the Japan Securities Dealers Association or in the case where the delivery of the report on the outstanding balance of transactions is not required pursuant to the provisions of Article 45 of the Act or Article 111, Item 1 of the Cabinet Office Ordinance on Financial Instruments Business, etc. (Cabinet Office Ordinance No. 52 of 2007), the delivery of the reports prescribed in the preceding paragraph shall not be required.
  3. In the case where a Trading Participant has presented to a customer a type and details of electromagnetic means (meaning the means using electronic information processing facilities or any other communications technologies that are similar to the means stipulated in Article 56 (excluding Paragraph 1, Item 1 (d), Paragraph 2, Item 3 (b) and Item 4, and the term "the transactions listed ... were carried out last" in Item 3 of the same paragraph shall be read as "were recorded") of the Cabinet Office Ordinance on Financial Instruments Business, etc.; the same shall apply hereinafter in this paragraph and the following paragraph) to employ and obtained the customer's approval in writing or through electromagnetic means, the Trading Participant may, instead of sending a report pursuant to the provisions of Paragraph 1, provide the matters to be stated in such report through the electromagnetic means. In such cases, it shall be deemed that Trading Participant has sent the report.
  4. A Trading Participant that has obtained the approval pursuant to the provisions of the preceding paragraph may not provide the matters to be stated in the report through the electromagnetic means, if the customer notifies the Trading Participant in writing or through the electromagnetic means that he/she will not accept the report through electromagnetic means; provided, however, that this shall not apply if the customer gives another approval in accordance with the provisions of the preceding paragraph.
  5. In cases where the average value of unit prices of transactions effected for the same issue on the same day may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., such average value may be used for the contract price referred to in Paragraph 1, Item 4.

6. The trade execution date enumerated in Paragraph 1, Item 5 may be the day on which the trading day on which the transaction is executed ends. In such cases, the Trading Participant shall give an explanation to that effect to its customer.

**Rule 56. Assignment of Exercise and Notification thereof to Customer**

1. In cases where a Trading Participant receives notice, pursuant to the Business Rules of JSCC, concerning the assignment of exercise with respect to a position based on the order entrusted from a customer, the Trading Participant shall assign the exercise to the customer immediately in accordance with a method determined in advance.
2. In the case of the assignment specified in the preceding paragraph, the Trading Participant shall notify the customer promptly of the issue and the amount pertaining to the assignment.

**Rule 57. Purchase for a Trading Participant's Own Account during Takeover Bid Period**

The purchase transactions, etc., permitted by regulations specified by each financial instruments exchange for the purpose of smooth trading of securities, as prescribed in Article 12, Item 2 and Article 14-3-7, Item 5 of the Order for Enforcement of the Financial Instruments and Exchange Act (Cabinet Order No. 321, 1965), as applicable to the OSE market, shall be purchase transactions in security call options enumerated in each of the following items:

- (1) Purchase transactions for error correction, etc. effected pursuant to the provisions of Rule 34; and
- (2) Purchase transactions, etc., arising from an error in executing a customer's order if it is deemed by OSE that such transaction occurred in truly unavoidable circumstances.

**Rule 58. Emergency Measures in case of Malfunction in Operation of Trading Systems**

1. In the event that any malfunction in the operation of the trading systems has occurred and OSE deems it necessary, market derivatives trading may be temporarily conducted by other means than the trading systems.
2. A Trading Participant that has difficulty in making bids and offers due to a failure in the trading systems or other unavoidable circumstances (hereinafter referred to as "Trading Participant(s) in the system malfunction") may, with the prior approval of another Trading Participant and OSE, make the bids and offers, etc. through such other Trading Participant (hereinafter referred to as "Acting Trading Participant(s)"). In this case, when a transaction in market derivatives contracts is effected with such bids and offers, etc., the Trading Participant(s) in the system malfunction and the Acting Trading Participant(s) shall notify OSE of the details of the transaction in accordance with the provisions specified by OSE.
3. Matters necessary for the trading prescribed in the preceding two paragraphs shall be stipulated by OSE on a case-by-case basis.

**Rule 59. Decision of Necessary Matters Concerning Market Operation**

In addition to the matters prescribed in these Regulations, OSE may prescribe necessary treatment in other regulations, in cases where it is necessary for the operation of the OSE markets.

**Rule 60. Application to Brokerage for Clearing of Securities, etc.**

1. The provisions of Chapter 2 through Chapter 9 (excluding Chapter 6, Chapter 7 and Rule 57) shall apply to the brokerage for clearing of securities, etc. by regarding a Trading Participant that entrusts the brokerage for clearing of securities, etc. as an entity that effects such transactions in the market derivatives contracts.
2. The provisions of Chapter 6, Section 2 shall apply to the brokerage for clearing of securities, etc. pertaining to loan trading by regarding a Trading Participant that entrusts the brokerage for clearing of securities, etc. as an entity that effects such loan trading.

Attachment

**Table for Computation of Conversion Factors between Standardized Government Bonds and Deliverable Bonds**

$$\text{Conversion factor} = \frac{\frac{\text{Yearly interest of deliverable bond}}{x} \times \left\{ \left( 1 + \frac{x}{2} \right)^{\left( \text{No. of interest payments after date of settlement by delivery/payment for deliverable bond} \right)} - 1 \right\} + 100}{\left( 1 + \frac{x}{2} \right)^{\left( \text{Remaining maturity as of date of settlement by delivery/payment} \right)} \times 100}$$


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$$\frac{\text{Yearly interest of deliverable bond} \times \left( 6 - \frac{\text{Period from date of settlement by delivery/payment for deliverable bond to next interest payment date}}{1200} \right)}{1200}$$

(Notes)

1. "x" in this table shall be defined as follows for each type of standardized government bond.
  - (1) Standardized medium-term government bonds: 0.03
  - (2) Standardized long-term government bonds: 0.06
  - (3) Standardized super long-term government bonds: 0.03
2. The remaining maturity as of the date of settlement by delivery/payment for a deliverable bond and a period between the date of settlement by delivery/payment for a deliverable bond and the next interest payment date shall be counted in units of months.
3. Conversion factors shall be calculated to the sixth decimal place, and decimals in the seventh or lower places shall be discarded.
4. Figures obtained in the process of calculation shall be calculated to the tenth decimal place, and decimals in the eleventh or lower places shall be discarded.
5. In the event that a government bond is delivered/received for settlement of delivery/payment before the first interest payment of such bond, when computing conversion factors for deliverable bonds with a remaining maturity exceeding ten (10) years in the case of a long-term standardized government bond, and conversion factors for deliverable bonds with a remaining maturity exceeding twenty (20) years in the case of a super long-term standardized government bond, the following phrases in the table shall be as follows:
  - (1) The term "No. of interest payments after date of settlement by delivery/payment for a deliverable bond" shall be "No. of interest payments after date of settlement by delivery/payment for a deliverable bond + 1"; and
  - (2) The term "Period from date of settlement by delivery/payment for deliverable bond to next interest payment date" shall be "(Period from date of settlement by delivery/payment for deliverable bond to next interest payment date - 6)".

## **Trading Participant Regulations**

(As of April 21, 2014)

Osaka Exchange, Inc.

### **Chapter 1**

#### **General Provisions**

##### **Rule 1. Purpose**

1. These Regulations set out matters concerning obligations of Trading Participants, granting trading qualification, Guarantee Funds and mediation and other necessary matters concerning Trading Participants pursuant to Rule 2, Paragraph 1 of the Business Regulations.
2. Any amendments to these Regulations shall be made by resolution of the Board of Directors; provided, however, that this shall not apply in cases of minor amendments.

### **Chapter 2**

#### **Trading Participants**

##### **Section 1**

#### **General Rules**

##### **Rule 2. Types of Trading Participants**

1. There shall be three types of Trading Participants on OSE: Futures, etc. Trading Participant, Government Bond Futures, etc. Trading Participant and FX Trading Participant.
2. A Futures, etc. Trading Participant shall have trading qualification to conduct the transactions (excluding transactions executed based on brokerage for clearing of securities, etc.) referred to in the following items on the OSE markets (hereinafter referred to as "Futures, etc. Trading Qualification"):
  - (1) Government bond futures transactions (meaning transactions referred to in Article 2, Paragraph 21, Item 1 of the Financial Instruments and Exchange Act (Act No. 25 of 1948; hereinafter referred to as "the Act") pertaining to standardized government bonds or transactions referred to in Item 2 of the same paragraph pertaining to prices of such standardized bonds; the same shall apply hereinafter)
  - (2) Index futures transactions (meaning transactions referred to in Article 2, Paragraph 21, Item 2 of the Act) pertaining to indices; the same shall apply hereinafter)
  - (3) Security options transactions (meaning transactions referred to in Article 2, Paragraph 21, Item 3 of the Act that pertain to securities transactions; the same shall apply hereinafter)

- (4) Government bond futures options transactions (meaning transactions listed in Article 2, Paragraph 21, Item 3 of the Act that pertain to government bond futures transactions; the same shall apply hereinafter)
  - (5) Index options transactions (meaning, of those referred to in Article 2, Paragraph 21, Item 3 of the Act, transactions prescribed in the Business Regulations as those equivalent to transactions specified in Item 2 of the same paragraph (limited to transactions pertaining to indices); the same shall apply hereinafter)
3. A Government Bond Futures, etc. Trading Participant shall have trading qualification to conduct transactions (excluding transactions executed based on brokerage for clearing of securities, etc.) referred to in Item 1 and Item 4 of the preceding paragraph on the OSE markets (hereinafter referred to as "Government Bond Futures, etc. Trading Qualification").
  4. A Foreign Exchange Margin Trading Participant (hereinafter referred to as an "FX Trading Participant") shall have trading qualification to conduct exchange foreign exchange margin transactions (meaning transactions referred to in Article 2, Paragraph 21, Item 2 of the Act that pertains to currency value (hereinafter referred to as "Exchange FX Transactions") However, excluding transactions executed based on brokerage for clearing of securities, etc.) on the OSE markets (hereinafter referred to as "FX Trading Qualification").
  5. A Trading Participant shall not be allowed to have Futures, etc. Trading Qualification and Government Bond Futures, etc. Trading Qualification at the same time.

### **Rule 3. Forms of Sales and Purchase of Market Transactions of Derivatives on the OSE Markets**

1. A Trading Participant shall conduct, in its own name, market transactions of derivatives (limited to those pertaining to the type of trading qualification that the Trading Participant holds; the same shall apply hereinafter in the following paragraph) on the OSE markets pertaining to the clearing qualification (meaning clearing qualification prescribed in the Business Rules of Japan Securities Clearing Corporation (hereinafter referred to as "JSCC")); the same shall apply hereinafter) that it holds.
2. A Trading Participant shall, for market transactions of derivatives on the OSE markets pertaining to the type of clearing qualification that the Trading Participant does not hold, entrust a Designated Clearing Participant (meaning a Designated Clearing Participant prescribed in Rule 27, Paragraph 1; the same shall apply in the following paragraph) with brokerage for clearing of securities, etc.
3. Notwithstanding the provisions of the preceding two paragraphs, a Remote Trading Participant (meaning an Authorized Transaction-at-Exchange Operator that holds trading qualification; the same shall apply hereinafter) shall, for market transactions of derivatives on the OSE markets (limited to those pertaining to the type of trading qualification that the Remote Trading Participant holds), entrust a Designated Clearing Participant with brokerage for clearing of securities, etc.

### **Rule 4. Ensuring Fair Price Formation and Smooth Circulation**

1. A Trading Participant shall make efforts to ensure fair price formation and smooth circulation on the OSE markets so that the function of OSE as a financial instruments exchange market will be maintained and enhanced.
2. A Trading Participant must treat market transactions of derivatives on the OSE markets with due importance.

**Rule 5. Cooperative or Control Relationship between Trading Participants and Officers or Other Parties**

1. If OSE deems that cooperative or control relationship between a Trading Participant and its officers or other parties is inappropriate in light of the objectives of OSE or the operation of the OSE markets, OSE may, after holding a hearing with said Trading Participant and demand changes thereto, indicating the reason therefor; provided, however, that if said Trading Participant has submitted a written statement, the submission thereof may substitute for a hearing.
2. In the event that a Trading Participant fails to respond to a hearing as referred to in the preceding paragraph in spite of having no legitimate reason, OSE may demand for changes as referred to in the same paragraph without holding a hearing.
3. If the Trading Participant considers a demand for changes as referred to in Paragraph 1 to be unjust, the Trading Participant may file an objection thereto, upon giving reasons, with OSE in writing within 10 days from the day on which it received notification of the demand for changes.
4. If, in the event that it receives an objection as referred to in the preceding paragraph, OSE considers that it would be appropriate to change or cancel the demand for change referred to in Paragraph 1, OSE shall change or cancel the demand referred to in Paragraph 1 immediately.

**Rule 6. Trading Participant Representative**

1. A Trading Participant must, as prescribed by OSE, notify in advance OSE of one person as its Trading Participant Representative from among its representative directors or representative executive officers, who is appropriate for representing said Trading Participant at OSE (where the Trading Participant is a foreign corporation other than a Remote Trading Participant, a person who is representative in Japan and holds a position equivalent to or higher than director or executive officer, or where the Trading Participant is a Remote Trading Participant, a person who holds a position equivalent to or higher than director or executive officer).
2. Only the Trading Participant Representative shall represent the Trading Participant in the relationship between said Trading Participant and OSE; provided, however, that normal daily business to the extent which is determined in advance may be carried out by an agent for which notification has been given to OSE.

**Rule 7. Person Responsible for Compliance with Laws and Regulations**

A Remote Trading Participant shall, as specified by OSE, apply to OSE for appointment of one person from among persons holding a position equivalent to or higher than director or executive officer as a Person Responsible for Compliance with Laws and Regulations (meaning a person who enforces board members, executives officers, and employees of said Remote Trading Participant to comply with the Act and other laws and regulations (hereinafter referred to as the "laws and regulations"), dispositions by the administrative authorities under the laws and regulations, and the Articles of Incorporation, Business Regulations, Brokerage Agreement Standards, and any other regulations of OSE, and just and equitable principles of trade (hereinafter referred to as "compliance with the laws and regulations, etc.") and endeavors to establish an internal management system, as well as makes proper contact and coordination with OSE, with respect to compliance with the laws and regulations, etc.) and obtain the approval of OSE.

**Rule 8. Liaison Office, etc.**

A Trading Participant shall notify OSE of one office from among its head office, other business offices or principal administrative offices (where the Trading Participant is a foreign corporation, the principal business or administrative offices in Japan) that are conveniently located for liaising with OSE to act as the liaison office to receive notifications from OSE. However, a Remote Trading Participant which has no office in Japan shall, instead, notify OSE of the name and address of the representative in Japan as prescribed in Article 60-2, Paragraph 1 of the Act.

**Section 2**

**Obligations, etc. of Trading Participants**

**Rule 9. Trading Participant Fees**

1. A Trading Participant must pay Trading Participant Fees to OSE in accordance with the provisions stipulated by OSE.
2. OSE may pay an incentive to Trading Participants based on the rules stipulated by OSE for the purposes of ensuring smooth circulation and improve liquidity on the OSE markets.

**Rule 10. Deleted.**

**Rule 11. Guarantee Fund**

1. A Trading Participant must deposit 3 million yen with OSE as a Guarantee Fund in accordance with the provisions specified by OSE.
2. A Guarantee Fund may be deposited in securities in lieu of cash in accordance with the provisions specified by OSE; provided, however, that this shall not apply to Remote Trading Participants.
3. Notwithstanding the provisions of the preceding two paragraphs, if OSE deems it especially necessary in the light of the objective of depositing a Guarantee Fund, it may, by resolution of the Board of Directors,

take the actions referred to in the following items against a Trading Participant to the degree necessary:

- (1) Restrictions on the issues designated by OSE as eligible to be deposited in lieu of cash for a Guarantee Fund pursuant to the provisions of the preceding paragraph;
  - (2) Lowering the ratio that should be multiplied by market value in the calculation of substitution value where a Guarantee Fund is substituted with securities pursuant to the provisions of the preceding paragraph; and/or
  - (3) Increase in the amount of Guarantee Funds.
4. OSE shall hold Guarantee Funds separately from other assets and manage them in the ways referred to in the following items:
- (1) Purchase of government bonds or municipal bonds;
  - (2) Bank deposits; and/or
  - (3) Monetary trusts with a bank engaging in trust business.

**Rule 11-2. Deposit of Trading Participant Security Money**

1. A Trading Participant must deposit with OSE Trading Participant Security Money in accordance with the provisions of the rules prescribed by OSE, in order to ensure fulfillment of its obligations pertaining to Trading Participant fees based on the provisions of Rule 9, Paragraph 1.
2. The Trading Participant Security Money may be deposited in securities in lieu of cash as prescribed by OSE; provided, however, that this shall not apply to Remote Trading Participants.
3. The provisions of Paragraph 3, Item 1 and 2 of the preceding paragraph shall apply to mutatis mutandis to a deposit of Trading Participant Security Money in lieu of cash.

**Rule 12. Prohibition against Assignment of Right to Claim Return of Guarantee Funds, etc.**

No Trading Participant may assign, contract to assign or offer for the purpose of collateral to any other party the right to claim the return of Guarantee Funds and Trading Participant Security Money.

**Rule 13. Liability in Use of Market Facilities**

OSE shall not be liable for compensation in the event that a Trading Participant suffers losses as a result of using the OSE market facilities in the course of its business, unless OSE is considered to have been acting intentionally or is grossly negligent.

**Rule 14. Obligation to Obtain Approval for Mergers, etc.**

1. A Trading Participant must obtain a prior approval of OSE when it intends to take the following actions:
  - (1) Merger with another legal entity in the event that the Trading Participant is to become the surviving company post-merger (excluding those referred to in Item 6 and Item 9 of Rule 15);
  - (2) Succeeding part of the business (meaning Registered Financial Institute Business for a Registered Financial Institution; the same shall apply to this paragraph and Rule 15) to another legal entity as a

- result of demerger (excluding those referred to in Item 9 of Rule 15);
- (3) Succession of the whole business or part of the business from another legal entity as a result of demerger (excluding those referred to in Item 7, Item 9 and Item 10 of Rule 15);
  - (4) Transfer of part of the business (excluding those referred to in Item 9 of Rule 15); or
  - (5) Acceptance of the whole business or the part of the business (excluding those referred to in Item 8, Item 9 and Item 11 of Rule 15).
2. A Trading Participant that intends to obtain the approval set forth in the preceding paragraph must make a notification and application to OSE as stipulated by OSE.
  3. When OSE conducts examination based on the examination prescribed in Rule 30, Paragraph 2, and deems that an action prescribed in each item of Paragraph 1 is inappropriate in the light of the objectives of OSE or operations of the OSE markets, OSE may, after holding hearings with said Trading Participant, refuse to give approval referred to in the same paragraph.
  4. The provisions of the provisos to Paragraph 1 and Paragraphs 2 through 4 of Rule 5 shall apply mutatis mutandis to the refusal of approval referred to in the preceding paragraph.
  5. In the cases where a Trading Participant has obtained approval referred to in Paragraph 1 and is required by OSE to report on its financial condition or any other matter deemed appropriate by OSE, it must immediately report the details to OSE.

**Rule 14-2. Application to an Approval for FX Broker**

1. An FX Trading Participant must obtain the approval of OSE in advance separately for each broker, when entrusted with Exchange FX Transactions from a Foreign Exchange Transaction Broker (meaning a broker who entrusts FX Trading Participants with Exchange FX Transactions a Financial Instruments Business Operator or a Registered Financial Institute and the said entrusted Exchange FX Transactions to said FX Trading Participants is an entrusted brokerage; hereinafter referred to as an "FX Broker").
2. An FX Trading Participant shall, when intending to obtain the approval referred to in the preceding paragraph, apply to OSE as stipulated by OSE.
3. An FX Trading Participant referred to in the preceding paragraph shall pay an approval examination fee in an amount stipulated by OSE.
4. In the event that an FX Trading Participant is given approval in the Paragraph 1, the said FX Trading Participant and the FX Broker related to the said approval must conclude an Agreement with OSE as stipulated by OSE.
5. In addition to the provisions specified in each of the preceding paragraphs, necessary matters concerning FX Brokers shall be stipulated by OSE.

**Rule 15. Matters to Be Notified**

A Trading Participant must, when it intends to take the following actions, notify OSE of the details thereof in advance in accordance with the provisions stipulated by OSE:

- (1) Termination of business (for Financial Instruments Business Operators, meaning businesses pertaining to the acts referred to in Article 28, Paragraph 1, Item 1 of the Act; Type II Financial Instruments Business; or Securities, etc. Management Business. For Registered Financial Institutions, meaning Registered Financial Institution Business and for Authorized Transaction-at-Exchange Operators, meaning Transaction-at-Exchange Operations);
- (2) Mergers, in the event that the Trading Participant becomes extinct upon said merger with another legal entity and mergers in the event that a legal entity is formed upon said merger with another legal entity;
- (3) Dissolution by any means other than merger or determination of the commencement of bankruptcy proceedings;
- (4) Succeeding the whole business to another legal entity as a result of demerger
- (5) Transfer of the entire business;
- (6) Mergers in the event that the Trading Participant merges with another Trading Participant and survives post-merger;
- (7) Succession of the whole business from another Trading Participant as a result of demerger;
- (8) Acceptance of transfer of the entire business from another Trading Participant;
- (9) Action referred to in each item of Rule 14, Paragraph 1, which is separately prescribed by OSE from among actions for which an approval by resolution of a general shareholders meeting is not required under the Companies Act (Act No. 86 of 2005) (or a comparable action in the case of a party other than a stock company);
- (10) Succession of business in whole or in part from a wholly-owned subsidiary as a result of demerger;
- (11) Acceptance of transfer of business in whole or in part from a wholly-owned subsidiary;
- (12) Change in the trade name or name (including change in the English trade name or name); or
- (13) Change in officers
- (14) Suspension from the entrustment of Exchange FX Transactions by FX Brokers as regards to FX Trading Participants provided in Paragraph 1 of Rule 14.

**Rule 16. Matters to Be Reported**

1. Where a Trading Participant falls under cases as prescribed by OSE, it must immediately report the details to OSE.
2. An FX Trading Participant, in addition to those provided in the preceding paragraph, must report to OSE, matters deemed necessary by OSE in accordance with the provisions specified by OSE.

**Rule 17. Obligations to Submit Documents, etc.**

1. In cases referred to in each of the following items or in other cases where OSE deems it necessary in the light of its objectives and the operation of its markets, OSE may require a Trading Participant to submit materials or reports concerning the business and property of said Trading Participant or inspect the status

of said Trading Participant's business and property or accounting books, documents, and other articles.

- (1) In cases where OSE carries out investigations into the status of compliance by a Trading Participant with laws and regulations, dispositions by the administrative authorities under the laws and regulations, OSE rules and regulations or disciplinary actions under such rules and regulations, or just and equitable principles of trade.
  - (2) In cases where OSE conducts an investigation into the financial condition of a Trading Participant;
  - (3) In cases where OSE conducts an investigation for the purpose of securing the fairness in market transactions of derivatives on the OSE markets; and
  - (4) In cases where there is a request for information concerning an investigation for the purpose of ensuring the fairness in market transactions of derivatives or other transactions from another Financial Instruments Exchange or Financial Instruments Firms Association (including foreign organizations corresponding thereto), in the event that OSE considers it appropriate to comply with said request.
2. When a Trading Participant has been required by OSE to submit reports or materials pursuant to the provisions of the preceding paragraph, it shall do this in the manner specified by OSE without delay.

**Rule 18. Matters relating to Acceptance of Entrustment of Transactions**

A Trading Participant must, when it intends to accept entrustment for market transactions of derivatives on the OSE markets (excluding acceptance of entrustment of brokerage for clearing of securities etc.), comply with the Brokerage Agreement Standards stipulated by OSE.

**Rule 19. Obligation to Conduct Investigation on Acceptance of Entrustment of Transactions**

A Trading Participant must, when it intends to accept entrustment of market transactions of derivatives on the OSE markets (excluding entrustment of brokerage for clearing of securities, etc.), conduct an investigation in advance to verify the customer's name and any other matters stipulated by OSE.

**Rule 19-2. Promotion of Investor Protection, etc.**

An FX Trading Participant shall endeavor to secure fair Exchange FX Transactions and promote investor protection through appropriate development of risk management systems related to Exchange FX Transactions.

**Rule 19-3. Appropriate Management of the Status in Division Management**

FX Trading Participants must manage appropriately in regards to the status of division management related to Exchange FX Transactions by regularly conducting, more than one time every year, an external audit by certified public accountants or an audit corporation, or an internal audit conducted by an independent company department.

**Rule 20. Restriction on Acceptance of Entrustment from Officers or Employees of Another Trading Participant**

No Trading Participant may accept from any party who is an officer (including members who are to perform the duty of an officer if the officer is a corporation; the same shall apply hereinafter in this rule) or employee of another Trading Participant entrustment of market transactions of derivatives on the OSE markets that pertain to the type of trading qualification of such other Trading Participant, while knowing such officer or employee is an officer or employee of such other Trading Participant; provided, however, that this shall not apply to cases where consent from such other Trading Participant is obtained in writing or by a method using electronic information processing facilities or any other means using information and communications technology.

**Rule 20-2. Restriction on Acceptance of Entrustment by Remote Trading Participants**

1. No Remote Trading Participant may accept entrustment of market transactions of derivatives on the OSE markets for the accounts of customers residing in Japan, with knowledge that the said customers are residing in Japan.
2. When accepting entrustment of market transactions of derivatives on the OSE markets from customers residing in a foreign country, a Remote Trading Participant shall apply to OSE in advance as stipulated by OSE and obtain the approval of OSE.
3. The provisions of Paragraphs 3 through 5 of Rule 14 shall apply mutatis mutandis to the approval referred to in the preceding paragraph.

**Rule 21. Establishment of Trading Management System**

A Trading Participant must establish trading management systems relating to the prevention of unfair trading in accordance with the provisions specified by OSE.

**Rule 21-2. Establishment of Order Management System**

A Trading Participant must establish order management system in order to prevent acceptance and placement of erroneous orders in accordance with the provisions specified by OSE.

**Rule 21-3. Establishment of Risk Management System**

A Trading Participant must, as prescribed by OSE, establish risk management system (meaning system managing a risk which can result from fluctuations in prices of the holding positions or securities, etc., a contract default by a transaction counter party or any other reasons; the same shall apply hereinafter) regarding to the positions (meaning an aggregate composed by the said Trading Participant's unsettled contracts (meaning unsettled contracts specified in Rule 4, Paragraph 1, Item 12 of the Business Regulations; the same shall apply hereinafter) pertaining to the market transactions of derivatives on the OSE market.

**Rule 21-4. Development of Corporate Information Management Systems**

A Futures, etc. Trading Participant must develop corporate information management systems that are deemed necessary and appropriate in light of the operations of the OSE markets in order to prevent unfair transactions using corporate information (meaning the corporate information referred to in Article 1, Paragraph 4, Item 14 of the Cabinet Office Ordinance on Financial Instruments Business, etc. (Cabinet Office Ordinance No.52 of 2007))

**Rule 21-5. Obligations, etc. of Remote Trading Participants**

1. A Remote Trading Participant must comply with the matters referred to in the following items, when conducting businesses:
  - (1) To adequately manage electronic data processing systems for Transaction-at-Exchange Operations, etc.; and
  - (2) To prohibit any person other than board members, executives and employees who are considered appropriate by OSE to engage in acts prescribed by OSE pertaining to market transactions of derivatives on the OSE markets.
2. A Remote Trading Participant must comply with rules, board resolutions, and guidelines of Japan Securities Dealers Association which OSE deems that such compliance is necessary for said Trading Participant in light of the exchange trading business carried out by said Trading Participant.

**Rule 22. Responsibility for Market Transactions of Derivatives**

A Trading Participant must assume all responsibilities for market transactions of derivatives on the OSE markets.

**Rule 22-2. Disclosure of Erroneous Orders**

When an erroneous order is placed and OSE makes an announcement pursuant to Rule 52 of the Business Regulations, the Trading Participant that placed said order must disclose, without delay, the issue (or the contract month for government bond futures transactions and index futures transactions) to which the order was placed and any other matters stipulated by OSE.

**Rule 23. Regulations on Business of Trading Participants in case of Emergency**

OSE may, in addition to those provided in these Regulations, impose on any or all Trading Participants necessary and appropriate regulations relating to their businesses, if OSE considers there is an urgent need therefor in light of the objectives of OSE and the operation of its markets.

**Section 3**

**Obligations, etc. of Trading Participants without Clearing Qualification**

**Rule 24. Definition of Non-Clearing Participants**

1. A Securities Non-Clearing Participant shall mean a Futures, etc. Trading Participant without Securities Clearing Qualification (meaning Securities Clearing Qualification prescribed in the Business Rules of JSCC; the same shall apply hereinafter).
2. A Government Bond Futures, etc. Non-Clearing Participant shall mean a Futures, etc. Trading Participant and a Government Bond Futures, etc. Trading Participant without Government Bond Futures, etc. Clearing Qualification (meaning the JGB Futures Clearing Qualification prescribed in the Business Rules of JSCC; the same shall apply hereinafter).
3. An Index Futures, etc. Non-Clearing Participant shall mean a Futures, etc. Trading Participant without Index Futures Clearing Qualification (meaning Index Futures Clearing Qualification prescribed in the Business Rules of JSCC; the same shall apply hereinafter).
4. A Foreign Exchange Transactions Non-Clearing Participant (hereinafter referred to as an "FX Non-Clearing Participant") shall mean an FX Trading Participant without FX Clearing Qualification (meaning FX Clearing Qualification prescribed in the Business Rules of JSCC; the same shall apply hereinafter).
5. For the purposes of these Regulations, Securities Non-Clearing Participants, Government Bond Futures, etc. Non-Clearing Participants, Index Futures, etc. Non-Clearing Participants and FX Non-Clearing Participants shall be referred to collectively as "Non-Clearing Participants".

**Rule 25. Conclusion of Clearing Entrustment Agreements**

1. A Securities Non-Clearing Participant must conclude a clearing entrustment agreement prescribed in the Business Rules of JSCC with a Securities Agency Clearing Participant (meaning a party holding Agency Clearing Qualification (meaning Agency Clearing Qualification prescribed in the Business Rules of JSCC) pertaining to Securities Clearing Qualification; the same shall apply hereinafter) regarding entrustment of brokerage for clearing of securities, etc. pertaining to securities transactions effected as a result of the exercise in security options transactions on the OSE markets.
2. A Government Bond Futures, etc. Non-Clearing Participant must conclude a clearing entrustment agreement prescribed in the Business Rules of JSCC with a Government Bond Futures, etc. Agency Clearing Participant (meaning a party holding Agency Clearing Qualification pertaining to Government Bond Futures, etc. Clearing Qualification; the same shall apply hereinafter) regarding entrustment of brokerage for clearing of securities, etc. pertaining to government bond futures and government bond futures options transactions on the OSE markets.
3. An Index Futures, etc. Non-Clearing Participant must conclude a clearing entrustment agreement prescribed in the Business Rules of JSCC with an Index Futures, etc. Agency Clearing Participant (meaning a party holding Agency Clearing Qualification pertaining to an Index Futures Clearing Qualification; the same shall apply hereinafter) regarding entrustment of brokerage for clearing of

securities, etc. pertaining to index futures transactions, security options transactions, and index options transactions on the OSE markets.

4. An FX Non-Clearing Participant must conclude a clearing entrustment agreement prescribed in the Business Rules of JSCC with an FX Agency Clearing Participant (meaning a party holding Agency Clearing Qualification pertaining to FX Clearing Qualification; the same shall apply hereinafter) regarding entrustment of brokerage for clearing of securities, etc. pertaining to FX Transactions on the OSE markets.
5. Notwithstanding the provisions of Paragraph 1, a Securities Non-Clearing Participant is not required to conclude a clearing entrustment agreement concerning entrustment of brokerage for clearing of securities, etc. pertaining to securities transactions if the approval of OSE is obtained. In such cases, said Futures, etc. Trading Participant may not carry out security options transactions (excluding those based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. pertaining to security options transactions.
6. The provisions of the preceding paragraph shall be applied mutatis mutandis to a Futures, etc. Trading Participant that is a Government Bond Futures, etc. Non-Clearing Participant. In this case, the terms "Paragraph 1." "securities transactions," and both "security options transactions (excluding those based on brokerage for clearing of securities, etc.)" and "security options transactions" shall be "Paragraph 2," "government bond futures transactions and government bond futures options transactions," and "these transactions," respectively.

#### **Rule 26. Deleted**

#### **Rule 27. Designation of Designated Clearing Participants**

1. A Non-Clearing Participant must, for each type of clearing qualification, designate one party from among Agency Clearing Participants (meaning Securities Agency Clearing Participants, Government Bond Futures, etc. Agency Clearing Participants, Index Futures, etc. Agency Clearing Participants or FX Agency Clearing Participants; the same shall apply hereinafter) having concluded the clearing entrustment agreement with the Non-Clearing Participant, to which it regularly entrusts brokerage for clearing of securities, etc. pertaining to such type of clearing qualification (such party shall be hereinafter referred to as the "Designated Clearing Participant").
2. The provisions of the preceding paragraph shall not apply to transactions pertaining to the type of clearing qualification in cases where a clearing entrustment agreement covering securities transactions has not been concluded, with the approval referred to in Rule 25, Paragraph 5 (including cases applied in Paragraph 6 of the same rule).
3. Non-Clearing Participants must, when designating or changing a Designated Clearing Participant stipulated in Paragraph 1, apply to and obtain the approval of OSE in advance in accordance with the regulations of OSE.

**Rule 28. Notification of Conclusion of Clearing Entrustment Agreements**

A Non-Clearing Participant must, when concluding a clearing entrustment agreement, notify OSE of the details thereof in advance in accordance with the regulations of OSE.

**Rule 29. Report on Termination of Clearing Entrustment Agreements**

A Non-Clearing Participant must report to OSE, details of the termination of clearing entrustment agreements in accordance with the termination categories referred to in the following items as stipulated in each relevant item:

(1) Termination by agreement:

The report shall be made no later than 3 days (excluding non-business days (in cases of Securities Non-Clearing Participants, Government Bond Futures, etc. Non-Clearing Participants and Index Futures, etc. Non-Clearing Participants, meaning non-business day specified in Rule 19, Paragraph 1 of the Business Regulations (including extraordinary non-business days specified in Paragraph 2 of the same rule), in cases of an FX Non-Clearing Participant, meaning non-business day pursuant to Rule 6 Chapter 1 of the Business Regulations and Brokerage Agreement Standards Relating to Exchange Foreign Exchange Margin Trading (hereinafter referred to as "Special Rules for Exchange FX Transactions"))) prior to the day on which said termination is to take place.

(2) Termination due to said Non-Clearing Participant giving advance notice in writing to the Agency Clearing Participant of its intention to terminate the agreement:

The report shall be made without delay after giving said notification of intention to terminate.

(3) Termination (excluding the termination referred to in Item 5) due to said Non-Clearing Participant receiving advance notice in writing from the Agency Clearing Participant of its intention to terminate the agreement:

The report shall be made without delay after receiving said notification of intention to terminate.

(4) Termination as a result of grounds for forfeiture of benefit of time for obligations of the Non-Clearing Participant relating to transactions based on the entrustment of brokerage for clearing of securities, etc.:

The report shall be made no later than the day before the day on which said termination is to take place (to be moved up in order if it falls on a non-business day; the same shall apply in the following item).

(5) Termination due to the Non-Clearing Participant receiving advance notice in writing from the Agency Clearing Participant of its intention to terminate the agreement (hereinafter referred to as "special termination"), in the event that said Non-Clearing Participant and the Agency Clearing Participant set a condition in advance under which it can terminate the clearing entrustment agreement in light of ensuring performance of the obligations pertaining to transactions based on the entrustment of brokerage for clearing of securities etc., and such condition is met:

The report shall be made immediately after receiving said notification of intention of special termination and no later than the day before the day on which said special termination is to take place.

#### Section 4

### Obtainment of Qualification to Participate in Trading

#### Rule 30. Application for Obtainment of Trading Qualification

1. A party that intends to obtain trading qualification must make an application to OSE for obtainment of trading qualification for each type of trading qualification it intends to obtain, as stipulated by OSE.
2. Examination of trading qualification of an applicant for obtainment of trading qualification shall be carried out as stipulated by OSE.
3. An applicant for obtainment of trading qualification shall pay a qualification examination fee in an amount stipulated by OSE.

#### Rule 31. Trading Participant Agreement

A Trading Participant must conclude a Trading Participant Agreement as stipulated by OSE with OSE.

#### Rule 32. Approval for Obtainment of Trading Qualification

1. OSE shall approve the obtainment of trading qualification in accordance with the trading qualification categories listed in the following items by those specified in the relevant item that it considers appropriate as a result of an examination in accordance with the provisions of Rule 30, Paragraph 2.

##### (1) Futures, etc. Trading Qualification

Those falling under a. or b. below:

- a. Financial Instruments Business Operators (limited to those registered to conduct businesses pertaining to the acts referred to in Article 28, Paragraph 1, Item 1 of the Act; the same shall apply in the following item); or
- b. Authorized Transaction-at-Exchange Operators

##### (2) Government Bond Futures, etc. Trading Qualification

Those falling under any of a. through c.:

- a. Financial Instruments Business Operators;
- b. Authorized Transaction-at-Exchange Operators; or
- c. Registered Financial Institutions

##### (3) FX Trading Qualification:

Those falling under a. or b. below:

- a. Financial Instruments Business Operators (limited to those registered Type II Financial Instruments Business (Type II Financial Instruments Business and Securities, etc. Administration

Business when accepting the entrustment of Exchange FX Transactions); or

b. Registered Financial Institutions

2. Where OSE has approved obtainment of trading qualification, OSE shall, by designating the date, have the applicant for obtainment of trading qualification pay a Trading Participation Fee, conclude a Trading Participant Agreement, undertake procedures to obtain any clearing qualification that the applicant does not hold out of the clearing qualification pertaining to the type of trading qualification it intends to obtain (where the applicant does not intend to newly obtain such clearing qualification, conclude a clearing entrustment agreement and designate a Designated Clearing Participant required under the provisions of Rules 25 through 27), deposit Guarantee Funds and Trading Participant Security Money and execute any other procedures for obtaining trading qualification stipulated by OSE. In such cases, if the applicant that has received approval for obtainment of trading qualification holds another OSE trading qualification, the applicant may allocate the current Guarantee Fund and Trading Participant Security Money that have already been deposited by the applicant to those that should be deposited by the applicant for obtainment of trading qualification.
3. With regard to the execution of procedures for obtainment of trading qualification referred to in the first sentence of the preceding paragraph, in cases where the applicant for obtainment of trading qualification obtains the same type of trading qualification through succession of a business in a demerger or purchase of a business from a Trading Participant simultaneously with the waiver of such trading qualification of such Trading Participant, when OSE deems that the Trading Participant whose trading qualification is to be waived and the applicant for obtainment of trading qualification are not substantially different, the applicant may allocate the current Guarantee Fund and Trading Participant Security Money that have already been deposited by the Trading Participant whose trading qualification is to be waived to those that should be deposited by the applicant for obtainment of trading qualification.
4. The amount of the Trading Participation Fee shall be stipulated by OSE in its rules and regulations.
5. If an applicant for obtainment of trading qualification fails to execute the procedures provided in Paragraph 2 by the deadline, its application for trading qualification shall be deemed to have been withdrawn.
6. When OSE has approved the obtainment of trading qualification pursuant to the provisions of Paragraph 1, OSE shall notify each Trading Participant to that effect.

**Rule 33. Date of Obtaining Trading Qualification**

1. When an applicant for obtainment of trading qualification executes the procedures provided in Paragraph 2 of the preceding rule, it shall become a Trading Participant of OSE on the day following the date designated by OSE pursuant to the same paragraph.
2. When an applicant for obtainment of trading qualification becomes a Trading Participant pursuant to the preceding paragraph, OSE shall make a public notice to that effect. However, OSE shall make no public notice with regard to a Remote Trading Participant.

3. When an applicant for obtainment of trading qualification becomes a Trading Participant pursuant to Paragraph 1, OSE shall deliver a Trading Participant Certificate to said Trading Participant.
4. Necessary matters concerning Trading Participant Certificates shall be stipulated by OSE.

**Rule 33-2. Transition between Financial Instruments Business Operators and Authorized Transaction-at-Exchange Operators**

1. In cases where a Remote Trading Participant intends to make registration for financial instruments business or where a Trading Participant that is a financial instrument business operator intends to obtain permission for the exchange trading business, it must obtain the approval of OSE.
2. If a Trading Participant intends to obtain the approval referred to in the preceding paragraph, it must make an application to OSE as stipulated by OSE.
3. The provisions of Paragraphs 3 and 4 of Rule 14 shall apply mutatis mutandis to the approval referred to in Paragraph 1.
4. When a Remote Trading Participant that intends to make registration for financial instruments business has obtained the approval prescribed in Paragraph 1, said Participant shall pay OSE an amount of money prescribed in OSE's rules by a day immediately prior to a day on which said Participant will make said registration.

**Section 5**

**Waiver of Trading Qualification**

**Rule 34. Application for Waiver of Trading Qualification**

When a Trading Participant intends to waive its trading qualification of OSE, it must make an application to OSE for waiver of trading qualification for each type of trading qualification it intends to waive, in accordance with the provisions specified by OSE.

**Rule 34-2. Special Rule for Application for Waiver of Trading Qualification Relating to Discontinuation of Exchange FX Transactions**

Notwithstanding of the provisions of the preceding rule, in cases where OSE intends to conduct discontinuation of Exchange FX Transactions (meaning discontinuation of Exchange FX Transactions prescribed in Rule 29-2, Paragraph 1 of the Special Rules for Exchange FX Margin Trading), a Trading Participant that holds FX trading qualification at the discontinuation shall be deemed that it has applied for waiver of the FX trading qualification on the date specified by OSE.

**Rule 35. Measures Including Suspension from Market Transactions of Derivatives of Applicants for Waiver of Trading Qualification**

1. OSE shall, on or after the day following the day (to be moved down if it falls on a non-business day)

when OSE received an application from a Trading Participant for waiver of trading qualification, suspend market transactions of derivatives on the OSE markets (excluding transactions based on brokerage for clearing of securities, etc.; the same shall apply hereinafter in this paragraph and the following rule) or entrustment of brokerage for clearing of securities, etc. of the Trading Participant, which pertain to such trading qualification of the Trading Participant.

2. Notwithstanding the provisions of the preceding paragraph, the applicant for waiver of trading qualification may, to the extent necessary to complete necessary procedures as prescribed in the provision of Rule 34 of the Clearing and Settlement Regulations, with the approval of OSE, carry out market transactions of derivatives and entrustment of brokerage for clearing of securities, etc. on the OSE markets.

### **Rule 36. Market Transactions of Derivatives in case of Merger, etc. of Applicants for Waiver of Trading Qualification**

Notwithstanding the provisions of Paragraph 1 of the preceding rule, in cases where an applicant for waiver of trading qualification is, concurrently with waiver of its trading qualification, merged by a party that obtains or has the same type of such trading qualification and has such party succeed its business or transfers its business as a result of demerger to such party, and OSE considers it is unnecessary to clear unsettled contracts with respect to market transactions of derivatives or transactions based on the entrustment of brokerage for clearing of securities, etc. or other transactions relating thereto on the OSE markets, OSE may choose not to suspend said applicant for waiver of trading qualification from effecting market transactions of derivatives and entrustment of brokerage for clearing of securities, etc. on the OSE markets.

### **Rule 37. Approval for Waiver of Trading Qualification**

1. OSE shall approve waiver of trading qualification, designating a future date.
2. OSE shall, in cases where it has approved waiver of trading qualification, notify each Trading Participant to that effect.

### **Rule 38. Procedures for Waiver of Trading Qualification**

1. In the event that a Trading Participant (excluding Remote Trading Participants; the same shall apply in Paragraph 3) waives its trading qualification (including a waiver by means of revocation; the same shall apply hereinafter), OSE shall immediately make a public notice about the waiver of such Trading Participant's trading qualification (or, in the event that it returns the Guarantee Fund to the Trading Participant (excluding those that do not carry out accepting of entrustment business related to market transactions of derivatives covered by the type of said trading qualification), the withdrawal of the Trading Participant's trading qualification and the return of said Trading Participant's Guarantee Fund).
2. The provisions of the latter part of the preceding paragraph relating to Guarantee Funds shall not apply to

cases where the Trading Participant that waived its trading qualification is given approval to obtain another trading qualification at the same time as the waiver of its trading qualification.

3. No Trading Participant may claim return of its Guarantee Fund due to waiver of trading qualification until six (6) months have elapsed from the date when the public notice was issued pursuant to the provisions of the preceding paragraph.
4. No Trading Participant may claim return of its Trading Participant Security Money due to waiver of trading qualification until two (2) months have elapsed from the date when the trading qualification was waived.
5. Where OSE in particular deems it necessary, it may change the period prescribed in the preceding two paragraphs.
6. Notwithstanding the provisions of the preceding three paragraphs, no Trading Participant may claim return of its Guarantee Fund and Trading Participant Security Money due to waiver of trading qualification where its Guarantee Fund and Trading Participant Security Money have been applied to such deposit requirements prescribed in the second sentence of Rule 32, Paragraph 2 (limited to cases where new trading qualification is obtained simultaneously with the waiver of the existing trading qualification) and Paragraph 3 of the same rule.
7. When a Trading Participant waives trading qualification of OSE, it must return its Trading Participant Certificate to OSE and undertake any other procedures stipulated by OSE.

**Rule 39. Repayment of Debts of Trading Participant that Waived Trading Qualification**

A party that has waived trading qualification must appropriate funds or securities returned by OSE to the repayment of all debts it owes to other Trading Participants and OSE as a Trading Participant.

**Rule 40. Trading, etc. in the Case of Waiving Trading Qualification**

In the event that a Trading Participant has waived its trading qualification, the Trading Participant itself or its general successor may, to the extent necessary to complete necessary procedures, in accordance with the provisions of Rule 35 of the Clearing and Settlement Regulations, with the approval of OSE, carry out market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) and entrustment of brokerage for clearing of securities, etc. on the OSE markets.

**Rule 41. Exemption from Trading Participation Fee**

In cases where OSE considers that the situation prescribed in Rule 32, Paragraph 3 applies, it may exempt from payment of a Trading Participation Fee a party that obtains the same type of trading qualification simultaneously with the waiver of trading qualification of an applicant for waiver of trading qualification.

**Section 6**

**Disciplinary Actions, etc. against Trading Participants**

**Rule 42. Disciplinary Actions against Trading Participants**

1. In cases where OSE deems that a Trading Participant falls under any of the following items, OSE may, after holding a hearing with said Trading Participant, take disciplinary actions referred to in the following items pursuant to Article 47 of the Articles of Incorporation:
- (1) Revocation of its trading qualification, if the Trading Participant is granted trading qualification by dishonest means;
  - (2) Revocation of its trading qualification, if the Trading Participant ceases to conform to the provisions of Rule 4, Paragraph 2;
  - (3) Revocation of its trading qualification, if the Trading Participant falls into insolvency and is unable to recover easily;
  - (4) Suspension from or restriction on market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.; the same shall apply hereinafter in this paragraph) or entrustment of brokerage for clearing of securities, etc. on the OSE markets for no longer than 6 months, or revocation of trading qualification, if the Trading Participant is in breach of its agreement with OSE concerning market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets;
  - (5) Suspension from or restriction on market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets for no longer than 6 months, or revocation of trading qualification, if the Trading Participant fails to pay, deliver or deposit funds or securities that it is obliged to pay, deliver to, or deposit with OSE in accordance with the provisions specified by OSE;
  - (6) A fine of not more than 100 million yen, admonition, suspension from market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets for no longer than 6 months, or revocation of trading qualification, if the Trading Participant refuses, obstructs or avoids an investigation pursuant to the provisions of Rule 17, or fails to submit reports or documents, or submits false reports or documents pursuant to the same rule, or refuses, obstructs or avoids an investigation pursuant to Rule 54;
  - (7) A fine of not more than 100 million yen, admonition, suspension from market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets for no longer than 6 months, or revocation of trading qualification, if the Trading Participant fails to give notification pursuant to Rule 15 or make a report pursuant to Rule 16, or gives a false notification or makes a false report; or
  - (8) Revocation of its approval, if the approval referred to in Rule 14-2 of Paragraph 1 is given through an illegal measure.
  - (9) A fine of not more than 100 million yen, admonition, suspension from or restriction on market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets for no longer than 6 months, or revocation of trading qualification, if the Trading

Participant breaches laws and regulations (including foreign financial instruments and exchange laws and regulations if the Trading Participant is a foreign corporation that is a financial instruments business operator or an Authorized Transaction-at-Exchange Operator; the Banking Act (Act No. 59 of 1981) and its related laws and regulations (hereinafter referred to as "Banking Act and Regulations") if the Trading Participant is a Registered Financial Institution other than a foreign bank or an insurance company; the Banking Act and Regulations and foreign banking laws and regulations or foreign financial instruments and exchange laws and regulations; the Insurance Business Act (Act No. 105 of 1995) and its related laws and regulations (hereinafter referred to as "Insurance Business Act and Regulations") if the Trading Participant is an insurance company; the same shall apply hereinafter), dispositions by the administrative authorities under the laws and regulations, or the Articles of Incorporation, Business Regulations, Brokerage Agreement Standards or any other regulations of OSE or disciplinary actions thereunder, or behaves contrary to just and equitable principles of trade, other than as referred to in the preceding items.

2. Notwithstanding the provisions of the preceding paragraph, in the event that a Trading Participant breaches laws and regulations or dispositions by the administrative authorities under the laws and regulations and OSE considers that it has thereby severely damaged the credibility of OSE or any Trading Participant of OSE, OSE may, after holding a hearing with said Trading Participant, take disciplinary action of a fine of not more than 500 million yen, admonition, suspension from or restriction on market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets for no longer than 6 months, or revocation of trading qualification.
3. OSE may, when it takes disciplinary actions pursuant to the provisions of the preceding two paragraphs, impose a fine concurrently with suspension from or restriction on market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets, or admonition.

#### **Rule 43. Regulatory Dispositions against Trading Participants**

1. In cases where a Trading Participant falls under any of the following items, OSE may, after holding a hearing with said Trading Participant and indicating the reason, enact regulatory disposition of suspension from or restriction on market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets, or other regulatory dispositions deemed necessary and appropriate by OSE:
  - (1) Where a Trading Participant fails to comply with demand to change its cooperative or control relationship with officers or other parties pursuant to the provisions of Rule 5;
  - (2) Where a majority of all shareholders' voting rights (excluding voting rights attaching to shares where the voting rights cannot be exercised in relation to all matters that can be resolved by a general meeting of shareholders and including voting rights attaching to shares deemed to have

voting rights pursuant to Article 879, Paragraph 3 of the Companies Act) or of voting rights related to capital contributions come to be held by parties OSE considers inappropriate in the light of the objectives of OSE or the operation of the OSE markets, or the Trading Participant becomes a subsidiary (meaning a subsidiary prescribed in Article 2, Paragraph 3 of the Companies Act (excluding cases where a majority of all shareholders' voting rights or of voting rights related to capital contributions are held)) of such a party; or

- (3) Where OSE considers that a party with authority over the Trading Participant equal to or greater than that of a director or executive officer, regardless of whether they hold the title of consultant or adviser or whatever other title, is inappropriate in the light of the objectives of OSE or the operation of the OSE markets.

2. In cases where a Trading Participant falls under any of the following items, OSE may, after holding a hearing with said Trading Participant, suspend or restrict said Trading Participant's market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets until such circumstances have been resolved:

- (1) Where the amount of stated capital, total amount of capital contribution (or the total amount of funds (including the reserve for redemption of funds) in the case of a mutual company,) or the amount of net worth (or net assets in the case of a Registered Financial Institution) falls below 300 million yen;
- (2) For Financial Instruments Business Operators, when the capital-to-risk ratio (or the ratio calculated as provided in Rule 46-6, Paragraph 1 of the Act in the case of an entity that do not conduct Type 1 Financial Instruments Business) falls below 120%;
- (2)-2 For Special Financial Instruments Business Operators (meaning Special Financial Instruments Business Operators prescribed in Article 57-5, Paragraph 2 of the Act), when the state of soundness of management as prescribed in Article 57-5, Paragraph 2 of the Act falls below the level stipulated by OSE;
- (3) Where Internationally Active Banks, the Norinchukin Bank, Internationally Active Shinkin Banks, and the Shoko Chukin, Ltd. (hereinafter referred to as "Internationally Active Bank, etc.) fall under any of the following a. to c. (for a foreign bank, in equivalent cases that OSE considers it necessary.)
  - a. Consolidated or non-consolidated common equity Tier 1 Ratio (meaning, for the Norinchukin Bank and Internationally Active Shinkin Banks, consolidated or non-consolidated common equity contribution Tier 1 Ratio) falls below 2.25%.
  - b. Consolidated or non-consolidated Tier 1 Ratio falls below 3%F
  - c. Consolidated or non-consolidated total capital ratio falls below 4%
- (3)-2 where, for registered financial institutions other than Internationally Active Banks, foreign banks, and insurance companies, consolidated or non-consolidated capital ratio pertaining to domestic

- standards falls below 2 % (for a foreign bank, in the case that OSE considers it necessary).
- (4) For insurance companies, where solvency margin ratio falls below 100%.
  - (5) For Authorized Transaction-at-Exchange Operators, where OSE considers the state of its capital adequacy has deteriorated to the same degree as the level specified in Item 2 and the preceding 2 items, in light of assets held, etc.;
  - (6) When an Authorized Transaction-at-Exchange Operator has become suspended from transactions of securities and market transactions of derivatives due to a disciplinary action or disposition by a foreign financial instruments exchange.
3. In cases where a Trading Participant falls under any of the following items, OSE may, after holding a hearing with said Trading Participant, suspend its market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets; provided, however, that the suspension from market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. that OSE may impose in cases where a Trading Participant falls under Item 1 shall be until such circumstances have been resolved:
- (1) Where the Trading Participant falls into insolvency or is in danger of falling into insolvency; or
  - (2) Where the Trading Participant fails to apply for waiver of its trading qualification in the event that a public notice of any of the matters listed in Rule 15, Items 1 through 5 has been made (or, for Remote Trading Participants, in the event any of the matters listed in Items 1 through 5 is notified to OSE).
4. A Trading Participant subject to suspension from market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets pursuant to the preceding paragraph may, to the extent necessary to complete necessary procedures, in accordance with the provisions of Rule 36 of the Clearing and Settlement Regulations, with the approval of OSE, carry out market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) and entrustment of brokerage for clearing of securities, etc. on the OSE markets.

**Rule 43-2. Regulatory Dispositions against Deficiencies, etc. in Risk Management System, etc.**

1. When a Trading Participant falls under any of the following items, OSE may, after holding a hearing of said Trading Participant and indicating the reason therefor, demand said Trading Participant to take necessary measures for the improvement:
  - (1) Where it is deemed that a Trading Participant holds, is specifically likely to hold, excessive positions (meaning the case where the amount corresponding to the risk which said Trading Participant's positions assume (meaning the amount corresponding to the risk of the loss arising from the fluctuation in prices of said Participant's unsettled contracts) is deemed excessive, compared to the amount of net worth of said Trading Participant (the amount of net assets in the case of a Registered Financial Institution) or its financial condition such as cash, and the case where

- such positions result from said Trading Participant's own unsettled contracts or the unsettled contracts based on the entrustment by extremely a few customers of the Trading Participant)
- (2) Where it is deemed that the risk management systems pertaining to the positions are extremely inappropriate in light of the operation of the OSE markets
2. In cases where it is deemed that a Trading Participant has not taken appropriate measures with respect to the demand in the preceding paragraph, OSE may, after holding a hearing and indicating the reason therefor, suspend the market transactions of derivatives on the OSE markets (excluding transactions based on brokerage for clearing of securities, etc.) , or suspend or restrict the entrustment of brokerage for clearing of securities, etc. or take any other measures deemed necessary by OSE.

**Rule 44. Termination of Regulatory Dispositions such as Suspension from Market Transactions of Derivatives**

1. A Trading Participant subject to suspension from market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets or other regulatory dispositions pursuant to the preceding two rules and Rule 47 without the period thereof having been prescribed may, if the reason for the regulatory dispositions has been removed, apply to have said action terminated, upon attaching a written explanation thereof.
2. OSE shall, if it considers the termination of the regulatory disposition appropriate based on the application referred to in the preceding paragraph, approve such application.
3. If a Trading Participant subject to suspension from market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets or other regulatory dispositions pursuant to the preceding 2 Rules and Rule 47 without the period thereof having been prescribed is unable to obtain the approval referred to in the preceding paragraph within one year after the day it was subject to said regulatory dispositions, OSE may revoke the trading qualification of said Trading Participant.

**Rule 45. Regulatory Actions against Trading Participants subject to Dispositions under Laws and Regulations**

In the event that a Trading Participant is subject to disposition under laws and regulations to suspend its business in whole or in part or rescind its registration or permission, OSE shall, in keeping with the details of that disposition, immediately subject said Trading Participant to suspension from or restriction on market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets or revoke its trading qualification.

**Rule 46. Objections to Disciplinary Actions or Regulatory Dispositions**

The provisions of the proviso to Paragraph 1 and Paragraph 2 of Rule 5 shall apply mutatis mutandis to the hearings referred to in Rule 42, Rule 43 and Rule 43-2, and the provisions of Paragraph 3 and Paragraph 4 of Rule 5 to the disciplinary actions or disposition referred to in Rule 42 and Paragraph 3 and Paragraph 4 of Rule 5 to the disciplinary actions or regulatory dispositions referred to in Rule 42. Rule 43 and Rule 43-2.

**Rule 47. Suspension from or Restriction on Market Transactions of Derivatives and Entrustment of Brokerage for Clearing of Securities, etc. for Trading Participants subject to Revocation of Clearing Qualification, etc.**

1. OSE shall, in the event that a Trading Participant has its clearing qualification revoked, or is subject to measures to suspend the assumption of obligations in whole or in part under the Business Rules of JSCC suspend/restrict said Trading Participant from/on market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.; the same shall apply hereinafter in this rule and the following rule ) or entrustment of brokerage for clearing of securities, etc. on the OSE markets, according to the details of such measures.
2. A Trading Participant as referred to in the preceding paragraph may, to the extent necessary to complete necessary procedures, in accordance with the provisions of Rule 36 of the Clearing and Settlement Regulations, with the approval of OSE, carry out market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets.

**Rule 48. Suspension from or Restriction on Non-Clearing Participants' Market Transactions of Derivatives or Entrustment of Brokerage for Clearing of Securities, etc. in cases where Designated Clearing Participant has had its Clearing Qualification Revoked, etc.**

1. OSE shall, in the event that the Designated Clearing Participant of a Non-Clearing Participant has its clearing qualification revoked, or is subject to measures to suspend the assumption of obligations in whole or in part under the Business Rules of JSCC suspend or limit market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. relating to securities transactions, etc. of said Non-Clearing Participant on the OSE markets, according to the details of such regulatory action.
2. Non-Clearing Participants as referred to in the preceding paragraph may, to the extent necessary to complete necessary procedures, in accordance with the provisions of Rule 37 of the Clearing and Settlement Regulations, with the approval of OSE, market transactions of derivatives or entrustment of brokerage for clearing of securities, etc.

**Rule 49. Measures when Designated Clearing Participant has not been Designated**

1. If a Non-Clearing Participant has not designated a Designated Clearing Participant (excluding cases where a Designated Clearing Participant is not designated pursuant to Rule 27, Paragraph 2 and cases where a Designated Clearing Participant is no longer acting as the Designated Clearing Participant

resulting from special termination of the clearing entrustment agreement with a Non-Clearing Participant), OSE shall suspend said Non-Clearing Participant's entrustment of brokerage for clearing of securities, etc. corresponding to the type of clearing qualification for which said designation has not been made (including security options transactions (excluding transactions based on brokerage for clearing of securities, etc.; the same shall apply hereinafter in this rule and the following rule) or entrustment of brokerage for clearing of securities, etc. relating to security options transactions in the event that the clearing qualification for which said designation has not been made is a Securities Clearing Qualification).

2. In cases referred to in the preceding paragraph, if the Designated Clearing Participant ceases to be the Designated Clearing Participant due to the termination of the clearing entrustment agreement with the Non-Clearing Participant, said Non-Clearing Participant may, notwithstanding the provisions of the same Paragraph, with the approval of OSE, entrust security options transactions or brokerage for clearing of securities, etc. to the extent necessary to resolve transactions based on said Non-Clearing Participants' security options transactions, entrustment of brokerage for clearing of securities, etc. and transactions related thereto that are unsettled.
3. In cases as described in the preceding paragraph, the party who had hitherto been the Designated Clearing Participant shall be deemed to be said Non-Clearing Participant's Designated Clearing Participant with respect only to the settlement of transactions based on said Non-Clearing Participants' entrustment of brokerage for clearing of securities, etc. and transactions related thereto that are unsettled.

#### **Rule 49-2. Measures when Special Termination was Made**

1. If a Non-Clearing Participant has not designated a Designated Clearing Participant (limited to cases where a Designated Clearing Participant is no longer acting as Designated Clearing Participant resulting from special termination of the clearing entrustment agreement with a Non-Clearing Participant), OSE shall suspend said Non-Clearing Participant's entrustment of brokerage for clearing of securities, etc. corresponding to the type of clearing qualification for which said designation has not been made (including entrustment of security options transactions or brokerage for clearing of securities, etc. relating to security options transactions in the event that the clearing qualification for which said designation has not been made is Securities Clearing Qualification).
2. Notwithstanding the provisions of the preceding paragraph, the Non-Clearing Participant referred to in the preceding paragraph may, with the approval of OSE, entrust security options or brokerage for clearing of securities, etc. to the extent necessary to resolve transactions based on said Non-Clearing Participant's entrustment of security options transactions, brokerage for clearing of securities, etc. and transactions related thereto that are unsettled, as well as to resolve unsettled transactions pertaining to margin transactions.
3. In cases referred to in the preceding paragraph, the party who had hitherto been the Designated Clearing Participant shall be deemed to be said Non-Clearing Participant's Designated Clearing Participant with

respect only to the settlement of transactions based on said Non-Clearing Participants' entrustment of brokerage for clearing of securities, etc.

**Rule 50. Notification of Disciplinary Actions, Regulatory Dispositions or Measures**

1. When OSE has taken a disciplinary action, regulatory disposition or measure (limited to the suspension from or restriction on the Trading Participant's market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or revocation of its trading qualification) against a Trading Participant in accordance with the provisions of this section (excluding Rule 48), OSE shall notify each Trading Participant to that effect.
2. In the event that the disciplinary action, regulatory disposition or measure taken by OSE against a Trading Participant in accordance with the provisions of this section is the suspension from or restriction on the Trading Participant's market transactions of derivatives (excluding transactions based on brokerage for clearing of securities, etc.) or entrustment of brokerage for clearing of securities, etc. on the OSE markets, said Trading Participant must publicly display notices to that effect at business locations, etc. in accordance with the provisions specified by OSE.

**Rule 51. Breach of Just and Equitable Principles of Trade**

Actions contrary to just and equitable principles of trade pursuant to the Articles of Incorporation and these Regulations shall mean the actions listed below and other actions stipulated in the regulations of OSE, in light of the objectives of OSE or the operation of the OSE markets, damage the credibility of OSE or Trading Participants of OSE or are contrary to good faith in respect of OSE or Trading Participants of OSE:

- (1) Interfering with or obstructing the business of OSE or the business of other Trading Participants;
- (2) A fraudulent act, dishonest or improper conduct, or excessively careless or negligent business practices in connection with securities transactions, market transactions of derivatives, foreign market derivative transactions or other similar transactions; and
- (3) Buying up stocks and selling such shares lucratively to an entity concerned with the issuing company of the stock, against his/her will, by taking advantage of being a holder of a large amount of shares of the stock, or acceptance of orders to buy shares of such stock (excluding acceptance of entrustment of brokerage for clearing of securities, etc.) for account of an entity that intends to carry out the similar sort of conduct thereto.

**Rule 52. Recommendations to Trading Participants**

1. If OSE considers that the business or financial condition of a Trading Participant is inappropriate in the light of the objectives of OSE or the operation of the OSE markets, OSE may recommend to said Trading Participant appropriate steps to be taken.
2. In cases where OSE made a recommendation as referred to in the preceding paragraph and deems it necessary, OSE may request said Trading Participant to provide reports on measures taken thereto.

**Chapter 2-2**  
**Obtainment of Trading Qualification by**  
**Specified Bridge Financial Institution, etc.**

**Rule 52-2. Examination on Trading Qualification pertaining to Specified Bridge Financial Institution, etc.**

Notwithstanding the provisions of Rule 30, Paragraph 1 and Paragraph 2, a specified bridge applicant for obtainment of trading qualification (meaning a specified bridge financial institution, etc. (meaning the specified bridge financial institution as defined in Article 126-34, Paragraph 3, Item 5 of the Deposit Insurance Act (Act No. 34 of 1971)) that applies to OSE for obtainment of trading qualification; the same shall apply hereinafter) is exempt from examination of trading qualification and payment of qualification examination fee.

**Rule 52-3. Approval of Obtainment of Trading Qualification pertaining to Specified Bridge Applicant for Obtainment of Trading Qualification**

1. Notwithstanding the provisions of Rule 32, Paragraph 1, OSE may grant approval of obtainment of trading qualification to a specified bridge applicant for obtainment of trading qualification.
2. Notwithstanding the provisions of Rule 32, Paragraph 2, where OSE has approved the obtainment of trading qualification pursuant to the provisions of the preceding paragraph, out of trading qualification obtainment procedures prescribed in Rule 32, Paragraph 2, payment of Trading Participation Fee and deposit of Trading Participant Security Money shall not be needed, and OSE shall make the specified bridge applicant for obtainment of trading qualification deposit the Guarantee Fund by the day specified by OSE on a case-by-case basis pursuant to the provisions of Paragraph 1 of the following rule.

**Rule 52-4. Date of Obtaining Trading Qualification pertaining to Specified Bridge Applicant for Obtainment of Trading Qualification**

1. Notwithstanding the provisions of Rule 33, Paragraph 1, a specified bridge applicant for obtainment of trading qualification shall become a Trading Participant on a date specified by OSE on a case-by-case basis.
2. The provisions of Rule 33, Paragraph 2 to Paragraph 4 shall be applied to cases where an applicant for obtainment of a specified bridge trading qualification becomes a Trading Participant pursuant to the provisions of the preceding paragraph.

**Rule 52-5. Obligation of Specified Failed Trading Participant to Obtain Approval Regarding Merger, etc.**

Notwithstanding the provisions of Rule 14, Paragraph 1, in cases where a specified failed Trading

Participant (meaning a Trading Participant that is designated as a specified failed financial institution under Specified Type II Measures prescribed in Article 126-2, Paragraph 1, Item 2 of the Deposit Insurance Act) intends to conduct acts referred to in Paragraph 1, Item 2 or Item 4 of the same rule, it shall not be required to obtain prior approval of OSE.

### **Chapter 3**

#### **Mediation**

##### **Rule 53. Requests for Mediation**

1. Regarding disputes that arise between Trading Participants concerning market transactions of derivatives on the OSE market, if there is a request, made in accordance with the provisions specified by OSE, from the Trading Participant that is a party involved, to mediate in such dispute, OSE shall mediate therein; provided, however, that if OSE considers that, in view of the nature of the dispute, it would be inappropriate for it to mediate, or if it considers that the party involved has unnecessarily requested mediation with an improper purpose, or if either party involved will not accept mediation, OSE may decline to mediate.
2. Regarding disputes referred to in the preceding paragraph, if there is a request for mediation from one of the parties involved, the other Trading Participant involved must accept the mediation of OSE.

##### **Rule 54. Necessary Investigation for Mediation**

When mediating, OSE may investigate matters concerning the Trading Participants involved that are necessary for the purpose of mediation.

##### **Rule 55. Mediation Regulations**

1. Mediation request procedures, the method of mediation and other matters necessary for mediation shall be stipulated in the mediation regulations.
2. The enactment of and amendments to the mediation regulations shall be made by resolution of the Board of Directors; provided, however, that this shall not apply to minor amendments.

##### **Rule 55-2. Entrustment of Self-regulatory Operations**

1. OSE may entrust Japan Exchange Regulation (hereinafter referred to as "JPX-R") with the activities prescribed in each of the following items out of the self-regulatory operations as prescribed in Rule 84, Paragraph 2 of the Act;
  - (1) Examination of the eligibility of Trading Participants;
  - (2) Investigation of the compliance status by a Trading Participant with the Laws and Regulations, disciplinary actions or dispositions taken by the administrative authorities under the Laws and

Regulations, or the Articles of Incorporation and other regulations of OSE or just and equitable principles of trade of OSE;

- (3) Examination of the details of market transactions of derivatives executed or conducted by Trading Participants in the financial instruments exchange market; and
  - (4) Operations related to disciplinary actions and other regulatory actions against Trading Participants.
2. Trading Participants and persons who intend to obtain trading qualification shall respond to the examination, investigation, report or materials submission, or inspection and hearing conducted by JPX-R with respect to the operations entrusted to JPX-R by OSE pursuant to the provisions of the preceding paragraph.
  3. With respect to the operations entrusted to JPX-R by OSE pursuant to the provisions of Paragraph 1, OSE shall grant approval or effect disciplinary actions or other regulatory actions based on the result of examination or investigation conducted by JPX-R.

**Rule 55-3. Entrustment of Affairs Concerning Guarantee Fund and Trading Participant Security Money**

1. OSE may entrust a person designated by OSE with affairs concerning the Guarantee Fund and the Trading Participant Security Money prescribed by OSE.
2. Deposit by a Trading Participant of the Guarantee Fund and the Trading Participant Security Money shall, in addition to the provisions prescribed in these Regulations, be subject to the provisions prescribed, with the approval of OSE, by a person designated pursuant to the provisions of the preceding paragraph pertaining to the affairs set forth in the same paragraph.

**Chapter 4**

**Miscellaneous Provisions**

**Rule 56. Application to Brokerage for Clearing of Securities, etc.**

The provisions of Rule 4, Paragraph 1, Rule 22 and Rule 22-2 shall apply to the brokerage for clearing of securities, etc. by regarding a Trading Participant that entrusts brokerage for clearing of securities, etc. as an entity that effects said market transactions of derivatives.

**Rule 57. Determination of Necessary Matters concerning Trading Participants**

OSE may, in addition to the matters provided in these Regulations, prescribe regulations regarding the required interpretation thereof if necessary in relation to Trading Participants of OSE.

## Clearing and Settlement Regulations

(As of September 24, 2015)

Osaka Exchange, Inc.

### Chapter 1

#### General Provisions

##### Rule 1. Purpose

1. These Regulations stipulate necessary matters concerning clearing and settlement of market transactions of derivatives on the markets of Osaka Exchange, Inc. (hereinafter referred to as "OSE") (meaning the financial instruments exchange markets established by OSE; the same shall apply hereinafter) in accordance with the provisions of Rule 2, Paragraph 2 of the Business Regulations.
2. Any amendments to these Regulations shall be made by resolution of the Board of Directors; provided, however, that this shall not apply in cases of minor amendments.

##### Rule 2. Definitions of Terms

1. For the purposes of these Regulations, the meanings of the terms relating to government bond futures transactions (meaning transactions enumerated in Article 2, Paragraph 21, Item 1 of the Financial Instruments and Exchange Act (Act No. 25 of 1948; hereinafter referred to as the "Act") pertaining to the standardized government bonds or transactions enumerated in Item 2 of the same paragraph pertaining to prices of such standardized government bonds; the same shall apply hereinafter) shall be as prescribed in the Business Regulations and the Special Rules for Business Regulations and Brokerage Agreement Standards Relating to the J-NET Market (hereinafter referred to as the "J-NET Special Rules), unless otherwise prescribed in these Regulations.
2. For the purposes of these Regulations, the meanings of the terms relating to index futures transactions (meaning transactions enumerated in Article 2, Paragraph 21, Item 2 of the Act that relates to an index) shall be as prescribed in the Business Regulations and the J-NET Special Rules, unless otherwise prescribed in these Regulations.
3. For the purposes of these Regulations, the meanings of the terms relating to security options transactions (meaning transactions enumerated in Article 2, Paragraph 21, Item 3 of the Act that relates to transactions in securities; the same shall apply hereinafter) (excluding the terms used regarding transactions in securities) shall be as prescribed in the Business Regulations and the J-NET Special Rules, unless otherwise prescribed in these Regulations.
4. For the purposes of these Regulations, the meanings of the terms relating to government bond

futures options transactions (except for terms used for government bond futures transactions) (meaning transactions enumerated in Article 2, Paragraph 21, Item 3 of the Act; the same shall apply hereinafter) shall be as prescribed in the Business Regulations and the J-NET Special Rules, unless otherwise prescribed in these Regulations.

5. For the purposes of these Regulations, the meanings of the terms relating to index options transactions (meaning, among those enumerated in Article 2, Paragraph 21, Item 3 of the Act, transactions (limited to transactions relating to indices) prescribed in the Business Regulations as those equivalent to transactions enumerated in Item 2 of the same paragraph; the same shall apply hereinafter) shall be as prescribed in the Business Regulations and the J-NET Special Rules, unless otherwise prescribed in these Regulations.
6. The meaning of terms relating to the Exchange-FX Margin Transactions (meaning those relating to the price of currency among the transactions enumerated in Article 2, Paragraph 21, Item 2 of the Act; hereinafter referred to as "Exchange-FX Transaction") used in these Rules shall be prescribed in the Special Rules for Business Regulations and Brokerage Agreement Standards relating to Exchange-FX Margin Transactions (hereinafter referred to as "Special Rules for Exchange-FX Transactions").
7. For the purposes of these Regulations, the meanings of the terms relating to Trading Participants shall be as prescribed in the Trading Participant Regulations, unless otherwise prescribed in these Regulations.
8. For the purposes of these Regulations, the meanings of the terms relating to cross margining shall be as prescribed in the Business Rules of Japan Securities Clearing Corporation (hereinafter referred to as "JSCC"), unless otherwise prescribed in these Regulations.

**Rule 3. Designation of Party to Conduct Financial Instruments Obligation Assumption Business**

OSE shall designate JSCC as the financial instruments clearing organization that conducts financial instruments obligation assumption business in relation to market transactions of derivatives that are executed on the OSE markets.

**Chapter 2**

**Settlement by Clearing Participants**

**Rule 4. Settlement by Clearing Participants**

1. The settlement of government bond futures transactions and government bond futures options transactions executed on the OSE markets shall be carried out between Government Bond Futures, etc. Clearing Participants (meaning a party with Government Bond Futures, etc. Clearing Qualification (meaning the JGB Futures Clearing Qualification prescribed in the

Business Rules of JSCC; the same shall apply hereinafter); the same shall apply hereinafter) and JSCC as prescribed in the Business Rules of JSCC.

2. The settlement of index futures transactions, security options transactions, and index options transactions executed on the OSE markets shall be carried out between Index Futures, etc. Clearing Participants (meaning a party with Index Futures Clearing Qualification (meaning the Index Futures Clearing Qualification prescribed in the Business Rules of JSCC; the same shall apply hereinafter); the same shall apply hereinafter) and JSCC as prescribed in the Business Rules of JSCC.
3. The settlement of Exchange-FX Transactions executed on the OSE markets shall be carried out between FX Clearing Participants (meaning a party with FX Clearing Qualification (meaning the FX Clearing Qualification prescribed in the Business Rules of JSCC; the same shall apply hereinafter); the same shall apply hereinafter) and JSCC as stipulated in the Business Rules of JSCC.

### **Chapter 3**

#### **Settlement between Non-Clearing Participants and Clearing Participants**

##### **Section 1**

##### **Settlement of Government Bond Futures Transactions**

###### **Rule 4-2. Resale or Repurchase**

1. In the event that a resale pertaining to long positions based on entrustment of brokerage for clearing of securities, etc. (hereinafter referred to as "Clearing Brokerage Long Positions") or a repurchase pertaining to short positions based on entrustment of brokerage for clearing of securities, etc. (hereinafter referred to as "Clearing Brokerage Short Position") is executed for each contract month of government bond futures, a Government Bond Futures, etc. Non-Clearing Participant (see Note 1 below) shall notify a Designated Government Bond Futures, etc. Clearing Participant of the distinction between resale and repurchase and quantity thereof for each contract month, classifying them into agency and proprietary accounts, no later than the cut-off time specified by the Designated Government Bond Futures, etc. Clearing Participant (see Note 2 below) before the settlement cut-off time specified by JSCC; provided, however, that this shall not apply in cases where the Government Bond Futures, etc. Non-Clearing Participant has made such notification to JSCC pursuant to the provisions of the rules of JSCC.

(Note 1) A Government Bond Futures, etc. Non-Clearing Participant means a Government Bond Futures, etc. Non-Clearing Participant prescribed in Rule 24, Paragraph 2 of the Trading Participant Regulations.

(Note 2) A Designated Government Bond Futures, etc. Clearing Participant means a

Government Bond Futures, etc. Agency Clearing Participant designated by such Government Bond Futures, etc. Non-Clearing Participant pursuant to the provisions of Rule 27, Paragraph 1 of the Trading Participant Regulations (meaning a party with Agency Clearing Qualification pertaining to Government Bond Futures, etc. Clearing Qualification (meaning the JGB Futures Clearing Qualification prescribed by the Business Rules of JSCC); the same shall apply hereinafter).

2. Where a Government Bond Futures, etc. Non-Clearing Participant has made the notification specified in the preceding paragraph, OSE shall receive from JSCC a notice of details about the resale or the repurchase pertaining to such notification.

**Rule 4-3. Settlement Price of Government Bond Futures Trading**

The settlement price of government bond futures transactions (in the case of mini contracts, the numerical value that is the settlement price) shall be the price specified by JSCC as the settlement price of government bond futures transactions (in the case of mini contracts, the numerical value).

**Rule 4-4. Payment/Receipt of Amount of Difference between Contract Price and Settlement Price**

With respect to government bond futures transactions (including transactions for error correction, etc.; the same shall apply hereinafter) based on entrustment of brokerage for clearing of securities, etc., where there is an amount of difference as a result of comparison between the contract price (meaning, in the case of mini contracts, the numerical value that is the contract price; the same shall apply in this section) and the settlement price on the trading day of the contract, a Government Bond Futures, etc. Non-Clearing Participant must pay to or receive from the Designated Government Bond Futures, etc. Clearing Participant the amount of money equivalent to such difference. In this case, the paying Government Bond Futures, etc. Non-Clearing Participant shall pay to the Designated Government Bond Futures, etc. Clearing Participant the amount of money equivalent to such difference no later than the time and date designated by the Designated Government Bond Futures, etc. Clearing Participant before the settlement cut-off time specified by JSCC.

**Rule 4-5. Payment/Receipt of Amount of Difference between Settlement Prices**

With respect to government bond futures transactions based on entrustment of brokerage for clearing of securities, etc., where there is an amount of difference as a result of comparison between the settlement price on the trading day and the settlement price on the preceding trading day, a Government Bond Futures, etc. Non-Clearing Participant shall pay to or receive from the Designated Government Bond Futures, etc. Clearing Participant the amount of money equivalent

to such difference. In this case, the paying Government Bond Futures, etc. Non-Clearing Participant must pay the amount of money equivalent to such difference to the Designated Government Bond Futures, etc. Clearing Participant no later than the time and date designated by the Designated Government Bond Futures, etc. Clearing Participant before the settlement cut-off time specified by JSCC.

Rule 4-6. Deleted.

**Rule 4-7. Government Bonds to be Delivered/Received and Money to Be Paid/Received for Settlement by Delivery/Payment**

The quantity of government bonds to be delivered/received and the amount of money to be paid/received between a Government Bond Futures, etc. Non-Clearing Participant and the Designated Government Bond Futures, etc. Clearing Participant for settlement of large contracts shall be as specified in the provisions of each of the following items:

- (1) The quantity of government bonds shall be the difference between the final Clearing Brokerage Short Positions and the final Clearing Brokerage Long Positions; and
- (2) The amount of money shall be the amount of the consideration for settlement by delivery/payment with respect to deliverable bonds pertaining to a net quantity of government bonds as prescribed in the provisions of the preceding item.

**Rule 4-8. Delivery Cut-off Time for Settlement by Delivery/Payment**

For settlement of large contracts by delivery/payment, a Government Bond Futures, etc. Non-Clearing Participant shall deliver government bonds it has sold or pay the amount of its purchase consideration to the Designated Government Bond Futures, etc. Clearing Participant no later than the time and date designated by the Designated Government Bond Futures, etc. Clearing Participant before the settlement cut-off time specified by JSCC.

**Rule 4-9. Combination of Securities of Deliverable Grade**

Securities of deliverable grades for settlement of large contracts pertaining to settlement by delivery/payment may be combined in integral multiples of the trading unit per deliverable bond as selected by the delivering Government Bond Futures, etc. Non-Clearing Participant.

**Rule 4-10. Notification of Securities of Deliverable Grade**

A delivering Government Bond Futures, etc. Non-Clearing Participant shall notify the Designated Government Bond Futures, etc. Clearing Participant of the issue and quantity provided for settlement of large contracts by delivery/payment by the time and date designated by the Designated Government Bond Futures, etc. Clearing Participant by deeming it necessary to effect

settlement by delivery/payment.

**Rule 4-11. Postponement of Settlement Pertaining to Settlement by Delivery/Payment**

In the event that a Government Bond Futures, etc. Non-Clearing Participant is unable to deliver government bonds for settlement of large contracts by delivery/payment by the cut-off time for settlement by delivery/payment as prescribed in the provisions of Rule 4-8, and, in addition, that it has obtained approval of the Designated Government Bond Futures, etc. Clearing Participant, such Government Bond Futures, etc. Non-Clearing Participant may postpone the delivery of government bonds pertaining to such settlement by delivery/payment to the following day or thereafter pursuant to the provisions prescribed by OSE.

**Rule 4-12. Payment/Receipt of Money for Final Settlement**

In the event that there is a difference as a result of comparison between the final settlement price and the settlement price as of the last trading day with respect to the final settlement of mini contracts, a Government Bond Futures, etc. Non-Clearing Participant shall pay to or receive from the Government Bond Futures, etc. Clearing Participant the amount of money equivalent to such difference. In this case, a paying Government Bond Futures, etc. Non-Clearing Participant shall pay such amount to the Designated Government Bond Futures, etc. Clearing Participant no later than the time and date designated by the Designated Government Bond Futures, etc. Clearing Participant before the settlement cut-off time specified by JSCC.

**Section 1-2**

**Cross Margining**

**Rule 4-13. Offer pertaining to Application for Cross Margining, etc.**

1. In cases where a Government Bond Futures, etc. Non-Clearing Participant is a cross margining user and intends to make the whole or part of the position for government bond futures transactions for its own account subject to cross margining, it may, as specified by OSE, make an offer pertaining to the application for making the position for government bond futures transactions for its own account subject to cross margining to its Designated Government Bond Futures, etc. Clearing Participant by the date and time specified by the Designated Government Bond Futures, etc. Clearing Participant.
2. In cases where a customer of a Government Bond Futures, etc. Non-Clearing Participant is a cross margining user and the Government Bond Futures, etc. Non-Clearing Participant has received an offer pertaining to the application for cross margining from the customer, the Government Bond Futures, etc. Non-Clearing Participant may, as specified by OSE, conduct the brokerage for the offer pertaining to the application for making the position for government bond

futures transactions for the said customer's account subject to cross margining by the date and time specified by the Designated Government Bond Futures, etc. Clearing Participant.

3. Notwithstanding the provisions of the preceding two paragraphs, in the event that a Designated Government Bond Futures, etc. Clearing Participant may not apply for cross margining as specified by JSCC, a Government Bond Futures, etc. Non-Clearing Participant may not make an offer or conduct the brokerage for an offer pertaining to the application for cross margining to the Designated Government Bond Futures, etc. Clearing Participant.

### **Section 1-3**

#### **Settlement of Index Futures Transactions**

##### **Rule 5. Resale or Repurchase**

1. In the event that a resale pertaining to Clearing Brokerage Long Positions or a repurchase of Clearing Brokerage Short Positions is executed for each contract month of index futures trading, an Index Futures, etc. Non-Clearing Participant (meaning Index Futures, etc. Non-Clearing Participants prescribed in Rule 24, Paragraph 3 of the Trading Participant Regulations; the same shall apply hereinafter) shall notify a Designated Index Futures, etc. Clearing Participant (meaning an Index Futures, etc. Agency Clearing Participant (meaning a party having Agency Clearing Qualification pertaining to Index Futures Clearing Qualification (meaning the Index Futures Clearing Qualification prescribed by the Business Rules of JSCC) designated by such Index Futures, etc. Non-Clearing Participant pursuant to Rule 27, Paragraph 1 of the Trading Participant Regulations; the same shall apply hereinafter) of the distinction between resale and repurchase and quantity thereof for each contract month, classifying them into agency and proprietary accounts, no later than the time specified by such Designated Index Futures, etc. Clearing Participant before the time specified by JSCC; provided, however, that this shall not apply when the Index Futures, etc. Non-Clearing Participant has made such notification to JSCC pursuant to JSCC's rules.
2. Where an Index Futures, etc. Non-Clearing Participant has made the notification specified in the preceding paragraph, OSE shall receive from JSCC a notice of details about the resale or the repurchase pertaining to such notification.

##### **Rule 6. Settlement Price**

The settlement price of index futures transactions shall be the price specified by JSCC as the settlement price of index futures transactions.

**Rule 7. Payment/Receipt of Money equivalent to Difference between Contract Price and Settlement Price**

With respect to index futures transactions (including transactions for error correction, etc.; the same shall apply hereinafter) based on entrustment of brokerage for clearing of securities, etc., where there is an amount of difference as a result of comparison between the contract price and the settlement price on the day of the contract, an Index Futures, etc. Non-Clearing Participant must pay to or receive from the Designated Index Futures, etc. Clearing Participant the amount of money equivalent to such difference. In this case, the paying Index Futures, etc. Non-Clearing Participant must pay to the Designated Index Futures, etc. Clearing Participant the amount of money equivalent to such difference no later than the time and date designated by the Designated Index Futures, etc. Clearing Participant before the settlement cut-off time specified by JSCC.

**Rule 8. Payment/Receipt of Amount of Difference between Settlement Prices**

With respect to index futures transactions based on entrustment of brokerage for clearing of securities, etc., where there is an amount of difference as a result of comparison between the settlement price as of the trading day and the settlement price as of the preceding trading day, an Index Futures, etc. Non-Clearing Participant shall pay to or receive from the Designated Index Futures, etc. Clearing Participant the amount of money equivalent to such difference. In this case, the paying Index Futures, etc. Non-Clearing Participant must pay the amount of money equivalent to such difference to the Designated Index Futures, etc. Clearing Participant no later than the time and date designated by the Designated Index Futures, etc. Clearing Participant before the settlement cut-off time specified by JSCC.

**Rule 9. Payment/Receipt of Money for Final Settlement**

In the event that there is a difference as a result of comparison between the final settlement price and the settlement price as of the last trading day, an Index Futures, etc. Non-Clearing Participant shall pay to or receive from the Designated Index Futures, etc. Clearing Participant the amount of money equivalent to such difference on the final settlement date. In this case, the paying Index Futures, etc. Non-Clearing Participant must pay the money to the Designated Index Futures, etc. Clearing Participant no later than the time and date designated by such Designated Index Futures, etc. Clearing Participant before the settlement cut-off time specified by JSCC.

**Section 2****Settlement of Security Options Transactions****Rule 10. Resale or Repurchase**

1. In the event that a resale pertaining to Clearing Brokerage Long Positions or a repurchase of

Clearing Brokerage Short Positions is executed for each issue of security options transactions, an Index Futures, etc. Non-Clearing Participant shall notify the Designated Index Futures, etc. Clearing Participant no later than the time specified by Designated Index Futures, etc. Clearing Participant of the distinction between resale or repurchase and quantity thereof for each issue, classifying them into agency and proprietary accounts, before the time prescribed by JSCC; provided however, that this shall not apply when the Index Futures, etc. Non-Clearing Participant has made such notification to JSCC pursuant to the provisions of JSCC's rules.

2. Where an Index Futures, etc. Non-Clearing Participant has made the notification specified in the preceding paragraph, OSE shall receive from JSCC a notice of the details of the resale or the repurchase pertaining to such notification.

#### **Rule 11. Payment/Receipt of Option Premium**

Where a security options transaction based on entrustment of brokerage for clearing of securities, etc. (including transactions for error correction, etc.; the same shall apply hereinafter) is effected, an Index Futures, etc. Non-Clearing Participant shall pay to or receive from the Designated Index Futures, etc. Clearing Participant the option premium. In this case, the paying Index Futures, etc. Non-Clearing Participant must pay money to the Designated Index Futures, etc. Clearing Participant no later than the date and time designated by such Designated Index Futures, etc. Clearing Participant before the settlement cut-off time specified by JSCC.

#### **Rule 12. Notification of Exercise of Options**

1. The exercise of security options for Clearing Brokerage Long Positions of security options transactions shall be executed by notification of an Index Futures, etc. Non-Clearing Participant to the Designated Index Futures, etc. Clearing Participant of the quantities pertaining to the exercise of options for each issue, classifying them into agency and proprietary accounts, no later than the cut-off time designated by the Designated Index Futures, etc. Clearing Participant before the cut-off time specified by JSCC; provided, however, that this shall not apply in cases where an Index Futures, etc. Non-Clearing Participant makes such notification to JSCC pursuant to the provisions of the JSCC rules.
2. With respect to an issue which falls under each of the following items on the exercise day, even where notification of the exercise of options has not been given by the cut-off time of such day prescribed in the preceding paragraph, notification of such exercise of options in the preceding paragraph shall be deemed to have been given; provided, however, that this shall not apply in cases where an Index Futures, etc. Non-Clearing Participant notifies to that effect that no exercise of options will be effected by such cut-off time:

- (1) A security put option whose exercise price exceeds the option reference price (meaning the option reference price prescribed in the Business Rules of JSCC; the same shall apply

hereinafter);

- (2) A security call option whose exercise price is lower than the option reference price.
3. An Index Futures, etc. Non-Clearing Participant having no Securities Clearing Qualification (meaning the Securities Clearing Qualification prescribed in the Business Rules of JSCC; the same shall apply hereinafter) and designating Participant different from the Designated Index Futures, etc. Clearing Participant as the Designated Securities Clearing Participant (meaning Securities Agency Clearing Participant (meaning Participant having Agency Clearing Qualification relating to Securities Clearing Qualification) designated by such Index Futures, etc. Non-Clearing Participant pursuant to Rule 27, Paragraph 1 of the Trading Participant Regulations; the same shall apply hereinafter in this section) must, when notification of an exercise of options pursuant to Paragraph 1 has been made (including when it shall be deemed that an exercise notice has been made pursuant to the preceding paragraph), so inform the Designated Securities Clearing Participant without delay.
  4. Where OSE deems it inappropriate to consider that notification of exercise of options has been given pursuant to the provisions of the main clause of Paragraph 2 due to any malfunction in the operation of the trading systems or any other unavoidable reason, such provisions of the main clause in the same paragraph shall not apply.
  5. In cases where an Index Futures, etc. Non-Clearing Participant gives notification of an exercise of options specified in Paragraph 1 (including the case where it is deemed that notification of an exercise of options is given pursuant to the provisions of Paragraph 2), OSE shall receive from JSCC a notice of details of the exercise pertaining to such notification.

#### **Rule 13. Notice concerning Assignment of Exercise of Options**

1. Where JSCC assigns exercise of options pertaining to Clearing Brokerage Short Positions as specified by JSCC, OSE shall receive from JSCC a notice of details pertaining to such assignment.
2. An Index Futures, etc. Non-Clearing Participant having no Securities Clearing Qualification and designating a party other than a Designated Index Futures, etc. Clearing Participant as the Designated Securities Clearing Participant must, when it receives an assignment of exercises of options pertaining to Clearing Brokerage Short Positions pursuant to the provisions of JSCC, notify to that effect to the Designated Securities Clearing Participant without delay. .

#### **Rule 14. Handling of Transactions in Underlying Securities Resulting from Exercise**

In the event that transactions in underlying securities executed as a result of the exercise of security options transactions pertain to Clearing Brokerage Short Positions or Clearing Brokerage Long Positions, these Regulations shall apply to such transactions in underlying securities executed as result of the exercise by deeming that such transactions are executed based on

entrustment of brokerage for clearing of securities, etc.

**Rule 15. Settlement Cut-off Time for Exercise of Options**

With respect to transactions in underlying securities executed as a result of exercise, the settlement shall be made at the cut-off time specified by JSCC in cases where an Index Futures, etc. Non-Clearing Participant has Securities Clearing Qualification, and an Index Futures Non-Clearing Participant shall deliver the securities to be transferred and the money to be paid to the Designated Securities Clearing Participant no later than the date and time designated by such Designated Securities Clearing Participant before the settlement time stipulated by JSCC in cases where the Index Futures, etc. Non-Clearing Participant has no Securities Clearing Qualification.

**Rule 16. Delivery where DVP Settlement is Used**

1. In the event that DVP settlement pursuant to the Business Rules of the JASDEC DVP Clearing Corporation ("JDCC") is to be used by agreement between an Index Futures, etc. Non-Clearing Participant that has no Securities Clearing Qualification (hereinafter referred to as "Securities Non-Clearing Participant) and the Designated Securities Clearing Participant in underlying securities executed as a result of exercise, the Securities Non-Clearing Participant shall transfer the securities or pay the money to the JDCC no later than the settlement cutoff time stipulated by the JDCC (for the transfer of securities, this shall be a time and date designated by the Designated Securities Clearing Participant at the time of the agreement before the settlement time stipulated by JSCC).
2. In the event that a Securities Non-Clearing Participant transfers the securities or pays the money pursuant to the provisions of the preceding paragraph, such transfer of securities or payment of money shall be deemed to be the delivery of securities or delivery of money enumerated in the preceding rule.

**Rule 17. Money and Securities to be Delivered or Received for Settlement**

1. The amount of money or quantity of securities to be delivered or received between the Securities Non-Clearing Participant and the Designated Securities Clearing Participant for the purpose of settlement of transactions in underlying securities executed as a result of exercise shall be as prescribed in the following item according to the classification stipulated in such item.

- (1) Where the quantity of securities underlying one (1) unit of the security option is equal to the quantity in a trading unit of such underlying securities.

In respect of the same Securities Clearing Participant on the same settlement day, the difference between the total amount of sales proceeds and the total amount of purchase money, and the difference between the quantity of securities sold and the quantity of securities purchased in respect of each issue.

- (2) Where the quantity of securities underlying one (1) unit of the security option is greater than the quantity in a trading unit of such underlying securities.

In transactions in underlying securities executed as a result of exercise, the Securities Non-Clearing Participant shall deliver, if it has purchased such underlying securities, the purchase money prescribed in (a), or if it has sold such underlying securities, the money prescribed in (b) and securities prescribed in (c).

- (a) The purchase money of the transaction in underlying securities executed as a result of exercise (the amount calculated by multiplying the result of multiplying the exercise price by the quantity of securities underlying one (1) unit of the security option (rounded down in the event that a fractional amount less than one (1) yen arises) by the quantity of the security options exercised; the same shall apply in the following Item).
- (b) Money equivalent to the amount calculated by multiplying the result of multiplying the quantity less than one (1) trading unit (meaning the quantity obtained by subtracting the quantity of an integral multiple of trading units of such underlying security from the quantity of securities underlying one (1) unit of the security option that falls short of such trading unit; the same shall apply hereinafter in this Rule) by the option settlement price (rounded down in the event that a fractional amount less than one (1) yen arises; the same shall apply in the following Item) by the quantity of security options exercised.
- (c) The quantity of securities calculated by multiplying the quantity obtained by subtracting the quantity less than one (1) trading unit from the quantity of securities underlying one (1) unit of the security option by the quantity of security options exercised.

- (3) Where the quantity of securities underlying one (1) unit of the security option is less than the quantity in a trading unit of such underlying securities.

In transactions in underlying securities executed as a result of exercise, the Securities Non-Clearing Participant shall deliver, if it has purchased such underlying securities, the purchase money prescribed in (a), or if it has sold such underlying securities, the money prescribed in (b).

- (a) The purchase money of the transaction in underlying securities executed as a result of exercise.
- (b) Money equivalent to the amount calculated by multiplying the result of multiplying the quantity of securities underlying one (1) unit of the security option by the option settlement price by the number of security options exercised.

2. In transactions in underlying securities executed as a result of exercise, the amount of money to be paid or received pursuant to Item 2 (b) and Item 3 (b) of the preceding paragraph shall be

included in the total purchase money prescribed in Item 1 of the preceding paragraph if the Securities Non-Clearing Participant has sold such underlying securities, or in the total sale money if it has purchased such underlying securities.

**Rule 18. Restriction on Deliverable Securities**

1. With respect to a delivery and a receipt of securities specified in the preceding rule, in cases where both old securities and new securities have been already listed or either of them has been already listed and the other has been determined to be listed, when the rights and obligations shall be the same and both shall be merged to trade, the settlement that comes after such trading begins shall be subject to the same treatment.
2. In the event that a Securities Non-Clearing Participant fails to deliver the securities by the cutoff time specified in Rule 15 concerning transactions in the underlying securities resulting from an exercise of options due to an unavoidable reason, it may postpone the delivery of such securities to the following day (to be moved down if such day falls on a non-business day (meaning a non-business day prescribed in Rule 19, Paragraph 1 including extraordinary non-business days in Paragraph 2 of the same rule; the same shall apply hereinafter); the same shall apply hereinafter) with an approval of the Designated Securities Clearing Participant.

**Section 2-2****Settlement of Government Bond Futures Options Transactions****Rule 18-2. Resale or Repurchase**

1. In the event that a resale pertaining to Clearing Brokerage Long Positions, or a repurchase pertaining to Clearing Brokerage Short Positions is executed for each issue of government bond futures options, a Government Bond Futures, etc. Non-Clearing Participant shall notify a Designated Clearing Participant of the distinction between resale and repurchase and quantity thereof for each contract month, classifying them into agency and proprietary accounts, no later than the cut-off specified by such Designated Government Bond Futures, etc. Clearing Participant before the settlement cut-off time specified by JSCC; provided, however, that this shall not apply in cases where the Government Bond Futures, etc. Non-Clearing Participant makes such notification to JSCC pursuant to the provisions of the rules of JSCC.
2. Where a Government Bond Futures, etc. Non-Clearing Participant has made the notification specified in the preceding paragraph, OSE shall receive from JSCC a notice of details about the resale or the repurchase pertaining to such notification.

**Rule 18-3. Notification of Exercise of Options**

1. The exercise of options for Clearing Brokerage Long Positions of government bond futures

options transactions (including transactions for error correction, etc.; the same shall apply hereinafter) shall be executed by notification of a Government Bond Futures, etc. Non-Clearing Participant to a Designated Government Bond Futures, etc. Clearing Participant of the quantities pertaining to the exercise of options for each issue, classifying them into agency and proprietary accounts, by the cut-off time specified by the Designated Government Bond Futures, etc. Clearing Participant before the settlement cut-off time specified by JSCC; provided, however, that this shall not apply, in cases where a Government Bond Futures, etc. Non-Clearing Participant makes such notification to JSCC pursuant to the provisions of the rules of JSCC.

2. With respect to an issue which falls under any of the following items on the expiration date of the exercise period, even where notification of the exercise of options has not been given by the cut-off time of such day prescribed in the preceding paragraph, notification of such exercise of options shall be deemed to have been given; provided, however, that this shall not apply in cases where a Government Bond Futures, etc. Non-Clearing Participant notifies to the effect that no exercise of options will be effected by such cut-off time:
  - (1) A government bond futures put option whose exercise price exceeds the settlement price of the underlying government bond futures contract month on a trading day that ends on the expiration date of the exercise period;
  - (2) A government bond futures call option whose exercise price is lower than the settlement price of the underlying government bond futures contract month on a trading day that ends on the expiration date of the exercise period.
3. Where OSE deems it inappropriate to consider that notification of exercise of options has been given pursuant to the provisions of the main clause of the preceding paragraph due to any malfunction in the operation of the trading systems or any other unavoidable reason, such provisions of the main clause in the same paragraph shall not apply.
4. In cases where a Government Bond Futures, etc. Non-Clearing Participant gives notification of an exercise of options as prescribed in Paragraph 1 (including cases where notification is deemed to have been given pursuant to the provisions in Paragraph 2), OSE shall receive from JSCC a notice of details about the exercise of options pertaining to such notification.

**Rule 18-4. Notice concerning Assignment of Exercise of Options**

Where JSCC assigns exercise of options pertaining to Clearing Brokerage Short Positions as specified by JSCC, OSE shall receive from JSCC a notice of details pertaining to such assignment.

**Rule 18-5. Treatment of Government Bond Futures Transactions by Exercise of Options of Clearing Brokerage Short Positions or Long Positions**

In cases where government bond futures transactions effected by an exercise of options in

government bond futures options transactions pertains to Clearing Brokerage Short Positions or Clearing Brokerage Long Positions, these regulations shall apply by deeming that the government bond futures transactions effected by such exercise of options has been effected based on entrustment of brokerage for clearing of securities, etc.

**Rule 18-6. Payment/Receipt of Option Premiums**

Where a government bond futures options transaction based on entrustment of brokerage for clearing of securities, etc. is effected, a Government Bond Futures, etc. Non-Clearing Participant shall pay/receive the option premiums to/from the Designated Government Bond Futures, etc. Clearing Participant. In this case, a paying Government Bond Futures, etc. Non-Clearing Participant shall make payment to the Designated Government Bond Futures, etc. Clearing Participant by the time and date specified by the Designated Government Bond Futures, etc. Clearing Participant before the settlement cut-off time specified by JSCC.

**Section 3****Settlement of Index Options Transactions****Rule 19. Resale or Repurchase**

1. An Index Futures, etc. Non-Clearing Participant shall, when resales of Clearing Brokerage Long Positions or repurchases of Clearing Brokerage Short Positions are executed for each issue of index options transactions, notify the Designated Index Futures, etc. Clearing Participant of the distinction between resale and repurchase and quantity thereof for each issue, separately for customers' accounts and its proprietary account by a cut-off time specified by the Designated Index Futures, etc. Clearing Participant before the cut-off time specified by JSCC; provided however, that this shall not apply in cases where an Index Futures, etc. Non-Clearing Participant makes such notification to JSCC pursuant to the provisions of JSCC.
2. In cases where an Index Futures, etc. Non-Clearing Participant makes the notification specified in the preceding paragraph, OSE shall receive a from JSCC notice of details of a resale or a repurchase pertaining to such notification.

**Rule 20. Payment/Receipt of Option Premium**

An Index Futures, etc. Non-Clearing Participant shall, when an index options transaction based on entrustment of brokerage for clearing of securities, etc. (including transactions for error correction, etc.; the same shall apply hereinafter) is effected, pay/receive the option premium to/from the Designated Index Futures, etc. Clearing Participant. In this case, the Index Futures, etc. Non-Clearing Participant making the payment must deliver the money to the Designated Index Futures, etc. Clearing Participant by the date and time designated by the Designated Index

Futures, etc. Clearing Participant before the settlement cut-off time specified by JSCC.

**Rule 21. Notification of Exercise of Options**

1. The exercise concerning Clearing Brokerage Long Positions on index options transactions shall be carried out by the Index Futures, etc. Non-Clearing Participant notifying the Designated Index Futures, etc. Clearing Participant of the quantities pertaining to the exercise of options for each issue, classifying them into agency and proprietary accounts, by the cut-off time specified by the Designated Index Futures, etc. Clearing Participant before the cut-off time specified by JSCC; provided however, that this shall not apply in cases where an Index Futures, etc. Non-Clearing Participant makes such notification to JSCC pursuant to the provisions of JSCC.
2. An Index Futures, etc. Non-Clearing Participant may not give notification of the exercise in the preceding paragraph on the exercise date with respect to an issue which falls under the cases prescribed in the following items.
  - (1) An index put option whose exercise price is at the option settlement price or lower;
  - (2) An index call option whose exercise price is at the option settlement price or higher.
3. Notification of the exercise of options in Paragraph 1 relating to an issue which falls under any of the following items on the exercise date shall be deemed to have been given even if such notification of options is not given by the cut-off time on such day prescribed in the same paragraph; provided, however, that this shall not apply in cases where an Index Futures, etc. Non-Clearing Participant notifies to that effect that no exercise of options will be effected by such cut-off time.
  - (1) An index put option whose exercise price exceeds the option settlement price;
  - (2) An index call option whose exercise price is lower than the option settlement price.
4. In cases where an Index Futures, etc. Non-Clearing Participant gives notification of an exercise of options specified in Paragraph 1 (including the case where it is deemed that notification of an exercise of options is given pursuant to the provisions of the preceding paragraph), OSE shall receive from JSCC a notice of details of the exercise pertaining to such notification.

**Rule 22. Notice concerning Assignment of Exercise of Options**

When JSCC carries out assignment of exercises of options pertaining to Clearing Brokerage Short Positions pursuant to JSCC's rules, OSE shall receive from JSCC a notice of details pertaining to such assignment.

**Rule 23. Handling of Transactions Resulting from Exercise of Clearing Brokerage Short Positions or Clearing Brokerage Long Positions**

In the event that transactions executed resulting from the exercise of index options transactions are related to Clearing Brokerage Short Positions or Clearing Brokerage Long Positions, these

Regulations shall apply to such transactions executed resulting from the exercise by deeming that such transactions are executed based on entrustment of brokerage for clearing of securities, etc.

**Rule 24. Payment/Receipt of Money for Settlement on Exercise of Options**

When an exercise of options pertaining to Clearing Brokerage Short Positions or Clearing Brokerage Long Positions has been effected, an Index Futures, etc. Non-Clearing Participant shall pay/receive to/from its Designated Index Futures, etc. Clearing Participant the amount of money equivalent to the difference between the exercise price and the option settlement price. In such cases, an Index Futures Non-Clearing Participant making the payment must pay such amount of money to the Designated Index Futures, etc. Clearing Participant by a day and hour designated by the Designated Index Futures, etc. Clearing Participant before the settlement cut-off time specified by JSCC.

**Section 4**

**Settlement of Exchange-FX Transactions**

**Rule 25. Position Notice**

1. An FX Non-Clearing Participant (meaning FX Non-Clearing Participants pursuant to Rule 24, Paragraph 4 of the Trading Participant Regulations; the same shall apply hereinafter) shall classify the number of long positions based on entrustment of agency clearing of securities, etc. relating to Exchange-FX Transactions (hereinafter referred to as "FX Clearing Brokerage Long Position") or the number of short positions based on entrustment of agency clearing of securities, etc. relating to Exchange-FX Transactions (hereinafter referred to as "FX Clearing Brokerage Short Position") according to agency and proprietary accounts, and notify the Designated FX Clearing Participant no later than the cut-off time prescribed by the Designated FX Clearing Participant (meaning FX Agency Clearing Participant (meaning Participant having Agency Clearing Qualification relating to FX Clearing Qualification (meaning the FX Clearing Qualification prescribed by the Business Rules of JSCC) designated by such FX Non-Clearing Participant pursuant to Rule 27, Paragraph 1 of the Trading Participant Regulations; the same shall apply hereinafter) before the time prescribed by JSCC; provided that, however, in the event of resale or repurchase, the number after reduction shall be notified as the number of such resale or repurchase relating to settlement.
2. A Non-Clearing Participant in FX transactions shall calculate and record the number for the notice in the preceding paragraph immediately after the trading session of each trading day (meaning the trading day prescribed in Rule 2, Item 15 of the Special Rules for Exchange-FX Transactions; the same shall apply hereinafter in this Section).
3. In case where an FX Non-Clearing Participant has made the notification specified in the

preceding paragraph, OSE shall receive from JSCC the notification of the resale or the repurchase relating to such notification.

**Rule 26. Settlement Price and Swap Point Standard Price**

1. The settlement price of Exchange-FX transactions shall be the price designated by JSCC as the settlement price of FX transactions.
2. The swap point standard price of Exchange-FX Transactions shall be the price prescribed by JSCC as the swap point price of Exchange-FX Transactions.

**Rule 27. Payment or Receipt of Initial Mark to the Market Result**

FX Non-Clearing Participants shall, if a difference arises between the contract price and the settlement price of the trading day on which such Exchange-FX transaction contract was executed in relation to an Exchange-FX Transaction based on entrustment of brokerage for clearing of securities, etc. (including transactions for error correction, etc.; the same shall apply hereinafter), and when a rollover (meaning the rollover of Rule 2, Item 17 of the Special Rules for Exchange-FX Transactions; the same shall apply hereinafter) of positions at the close of trading session is executed, pay to or receive from the Designated Clearing Participant in Exchange-FX Transactions money equivalent to the amount of such difference. In such cases, the Non-Clearing Participant in FX Transactions making the payment must deliver the money equivalent to the amount of such difference to the Designated Clearing Participant in FX Transactions no later than the date and time designated by such Designated Clearing Participant in FX Transactions before the settlement time prescribed by the rules of JSCC.

**Rule 28. Payment or Receipt of Net Difference from Previous Day**

FX Non-Clearing Participants shall, if a difference arises between the settlement price on the trading day which such positions rollover was executed at the close of trading session (excluding the case in the preceding rule) and the settlement price on the preceding trading day in relation to an FX transaction based on entrustment of brokerage for clearing of securities, etc., pay to or receive from the Designated FX Clearing Participant money equivalent to the amount of such difference. In such cases, the FX Non-Clearing Participant making the payment must deliver money equivalent to the amount of such difference to the Designated FX Clearing Participant no later than the date and time designated by such Designated FX Clearing Participant before the settlement time prescribed by the rules of JSCC.

**Rule 29. Delivery and Receipt of Swap Points**

FX Non-Clearing Participants shall, when a position rollover is executed at the close of trading session in relation to an FX transaction based on entrustment of brokerage for clearing of

securities, etc., deliver to or receive from such Designated FX Clearing Participant the money equivalent to the amount obtained by multiplying the swap point standard price of each financial index with the number of long positions relating to such rollover after reducing short positions (hereinafter referred to as "swap points") no later than the date and time designated by such Designated FX Clearing Participant before the settlement time prescribed by the rules of JSCC .

**Rule 30. Payment and Receipt of Settlement Balance, etc.**

FX Non-Clearing Participants shall, if resale or repurchase or final settlement of position was executed in an Exchange-FX transaction based on entrustment of brokerage for clearing of securities, etc., pay to or receive from the Designated FX Clearing Participant the money in accordance with the cases enumerated in the following items on the settlement day relating to the day on which such resale or repurchase was executed or on the final settlement day. In such cases, the FX Non-Clearing Participant must deliver such money to such Designated FX Clearing Participant no later than the date and time designated by such Designated FX Clearing Participant before the settlement time prescribed by the rules of JSCC.

- (1) When such position is a contract of the trading day of such resale or repurchase:
 

Money equivalent to the difference between the contract price relating to such position and the contract price relating to such resale or repurchase
- (2) When such position is a contract of a trading day prior to the preceding trading day on which such resale or repurchase was executed:
 

Money equivalent to the difference between the settlement price of the preceding trading day and the contract price relating to such resale or repurchase
- (3) When such position is a contract of the last trading day:
 

Money equivalent to the difference between the contract price relating to such position and the final settlement price
- (4) When such position is a contract of a trading day prior to the trading day preceding the last trading day:
 

Money equivalent to the difference between the settlement price of the preceding trading day and the final settlement price.

**Chapter 4**

**Clearing Margin and Transfer of Unsettled Contracts, etc.**

**Rule 31. Clearing Margin and Transfer of Unsettled Contracts**

1. Matters concerning clearing margin and transfer of unsettled contracts pertaining to government bond futures transactions, index futures transactions, security options transactions, government bond futures options transactions, and index futures transactions (hereinafter referred to as

"futures and options transactions") shall be governed by the Rules on Margin and Transfer of Unsettled Contracts Pertaining to Futures/Options Contract.

2. Matters concerning clearing margins and transfer of unsettled contracts pertaining to Exchange-FX transactions shall be governed by the Rules on Margin and Transfer of Unsettled Transactions Pertaining to Exchange-FX Margin Trading.

## **Chapter 5**

### **Treatment of Unsettled Contracts**

#### **Section 1**

#### **Treatment of Unsettled Contracts in Cases of Obtainment of Clearing Qualification and Change in Designated Clearing Participant**

##### **Rule 32. Treatment of Unsettled Contracts in Cases of Obtainment of Clearing Qualification**

In cases where a Trading Participant that is a Non-Clearing Participant (meaning a Non-Clearing Participant prescribed in Rule 24, Paragraph 5 of the Trading Participant Regulations; the same shall apply hereinafter) newly obtains a clearing qualification (meaning Government Bond Futures, etc. Clearing Qualification, Index Futures Clearing Qualification, or FX Clearing Qualification; the same shall apply hereinafter), unsettled contracts of such Trading Participant (limited to those pertaining to such clearing qualification) based on entrustment of brokerage for clearing of securities, etc. shall be market derivatives contracts in the name of such Trading Participant on and after the obtainment of clearing qualification.

##### **Rule 33. Transfer of Unsettled Contracts in Cases of Change in Designated Clearing Participant**

1. In cases where, pursuant to Rule 27, Paragraph 3 of the Trading Participant Regulations, a Non-Clearing Participant changes the Designated Clearing Participant (meaning the Designated Clearing Participant prescribed in Paragraph 1 of the same rule; the same shall apply hereinafter), unsettled market derivatives contracts of such Non-Clearing Participant based on entrustment of brokerage for clearing of securities, etc. shall be, on and after the change, market derivatives contracts based on entrustment of brokerage for clearing of securities, etc. to the Designated Clearing Participant after the change.
2. In cases where a Clearing Participant becomes a Non-Clearing Participant, the provisions of the preceding paragraph shall apply mutatis mutandis to the case where the designation of Designated Clearing Participant is made pursuant to Rule 27, Paragraph 3 of the Trading Participant Regulations. In this case "unsettled market derivatives contracts of such Trading Participants based on entrustment of brokerage for clearing of securities, etc." shall be read as

"unsettled contracts out of the transactions of a party that becomes a Non-Clearing Participant" and "Designated Clearing Participant after the change" shall be read as "a party that has been newly designated as a Designated Clearing Participant".

## Section 2

### **Treatment of Unsettled Contracts in Cases of Suspension of Market Transactions of Derivatives or Suspension of Entrustment of Brokerage for Clearing of Securities, etc.**

#### **Rule 34. Measures against Trading Participants that are Suspended from Market**

##### **Transactions of Derivatives by Application for Waiver of Trading Qualification**

If OSE suspends market transactions of derivatives (excluding transactions based on entrustment of brokerage for clearing of securities, etc.; the same shall apply hereinafter in this section) or entrustment of brokerage for clearing of securities, etc. in accordance with the provisions of Rule 35, Paragraph 1 of the Trading Participant Regulations, OSE may cause such applicant for waiver of trading qualification to transfer market transactions of derivatives or transactions based on entrustment of brokerage for clearing of securities, etc. and transactions related thereto of such applicant for waiver of trading qualification on the OSE markets to another Trading Participant or to make other arrangements that OSE deems necessary.

#### **Rule 35. Settlement of Unsettled Market Derivatives Contracts of Parties Having Waived Trading Qualification**

1. In cases where a party that has waived its trading qualification has unsettled market derivatives contracts or the contracts based on entrustment of brokerage for clearing of securities, etc. pertaining to the type of such trading qualification on the OSE markets that are unsettled, OSE shall cause such party itself or its general successor to undertake settlement thereof; provided, however, that if OSE considers it inappropriate to cause such party itself or its successor to undertake settlement, OSE may cause another Trading Participant to do so.
2. In the cases enumerated in the preceding paragraph, OSE may, when it deems necessary, cause another Trading Participant to take over market transactions of derivatives or transactions based on entrustment of brokerage for clearing of securities, etc. and transactions related thereto on the OSE markets pertaining to the type of such trading qualification that are unsettled or make other arrangements that OSE deems necessary.
3. OSE may, when it deems necessary, cause another Trading Participant to make the arrangement prescribed in the preceding paragraph. In such cases, an entrustment agreement shall be deemed to have been executed between such Trading Participant and the Trading Participant that is subject to suspension from market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. enumerated in the same paragraph.

**Rule 36. Measures against Trading Participants that are Suspended from Market Transactions of Derivatives due to Insolvency**

1. In the event that OSE suspends a Trading Participant from market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets in accordance with the provisions of Rule 43, Paragraph 3 of the Trading Participant Regulations, or suspends from market transactions of derivatives as a result of being subject to measures to have its clearing qualification revoked or to suspend it from assumption of obligations (limited to suspension from assumption of obligations as a result of making a public notice of insolvency or abolition of financial instruments business, or of breaching improvement instructions (meaning instructions for improvement of its position holding pursuant to the provisions of Business Rules of JSCC; the same shall apply hereinafter)) under the Business Rules of JSCC in accordance with the provisions of Rule 47, Paragraph 1 of the Trading Participant Regulations, OSE may cause such Trading Participant to transfer market transactions of derivatives or transactions under entrustment of brokerage for clearing of securities, etc. and transactions related thereto of such Trading Participant on the OSE markets that are unsettled to another Trading Participant or to make other arrangements that OSE deems necessary.
2. The provisions of Paragraph 3 of the preceding rule shall apply mutatis mutandis in cases where OSE causes a Trading Participant. to make the arrangement pursuant to the preceding paragraph.

**Rule 37. Measures against Non-Clearing Participants in Cases that Designated Clearing Participant has its Clearing Qualification Waived**

1. In the event that OSE suspends a Trading Participant that is a Non-Clearing Participant from entrustment of brokerage for clearing of securities, etc. in accordance with the provisions of Rule 48, Paragraph 1 of the Trading Participant Regulations as a result of the Designated Clearing Participant of such Non-Clearing Participant being subject to revocation of its clearing qualification or suspension from assumption of obligations (limited to suspension from assumption of obligations as a result of making a public notice of insolvency or abolition of financial instruments business, or of breaching improvement instructions) under the Business Rules of JSCC, OSE may cause such Trading Participant that is a Non-Clearing Participant to transfer market transactions of derivatives, transactions based on entrustment of brokerage for clearing and transactions related thereto of such Trading Participant that is a Non-Clearing Participant on the OSE markets that are unsettled to another Trading Participant or to make other arrangements that OSE deems necessary.
2. The provisions of Rule 35, Paragraph 3 shall apply mutatis mutandis in cases where OSE causes a Trading Participant to make the arrangement pursuant to the preceding paragraph.

**Rule 38. Measures against Trading Participants that are Subject to Suspension from or Restriction on Market Transactions of Derivatives on the OSE Markets**

In the event that the disciplinary action, regulatory disposition or action taken by OSE against a Trading Participant under the Trading Participant Regulations is suspension from or restriction on market transactions of derivatives or entrustment of brokerage for clearing of securities, etc. on the OSE markets (excluding cases to which the provisions of Rule 34, Rule 36 or the preceding rule apply), such Trading Participant may, with approval of OSE, during the period thereof, transfer to another Trading Participant such Trading Participant's market transactions of derivatives or transactions based on entrustment of brokerage for clearing of securities, etc. and transactions relating thereto on the OSE markets that are unsettled.

**Section 2-2**

**Transfer of Unsettled Contracts in Cases of Receiving Instructions for Improvement of Position Holding**

**Rule 39. Transfer of Unsettled Contracts in Cases where Trading Participant that is Government Bond Futures, etc. Clearing Participant, Index Futures, etc. Clearing Participant or FX Clearing Participant Receives Improvement Instruction**

1. In cases where a Trading Participant that is a Government Bond Futures, etc. Clearing Participant, Index Futures, etc. Clearing Participant, or FX Clearing Participant receives an improvement instruction, unsettled contracts in futures and options transactions or Exchange-FX Transactions may be transferred to another Trading Participant with the approval of JSCC and consent of such other Trading Participant.
2. In the cases enumerated in the preceding paragraph, if the unsettled contracts to be transferred are those for customers' accounts, such Trading Participant that is a Government Bond Futures, etc. Clearing Participant, Index Futures, etc. Clearing Participant, or FX Clearing Participant shall obtain the consent of such customers for such transfer of unsettled contracts.

**Section 3**

**Transfer of Unsettled Contracts in Cases of Demerger or Transfer of Business**

**Rule 40. Transfer of Unsettled Contracts in Cases of Demerger or Transfer of Business**

1. In the event that a Trading Participant takes over or transfers its business to another Trading Participant as a result of demerger, if such Trading Participant does not waive its trading qualification at the same time as such takeover or transfer of business, it may, with the approval

of OSE, transfer unsettled contracts in market transactions of derivatives relating to such takeover or transfer of such business to such other Trading Participant.

2. In the cases enumerated in the preceding paragraph, if the unsettled contracts to be transferred are those for customers' accounts, such Trading Participant shall obtain the consent of such customers for such transfer of unsettled contracts.

## **Chapter 6**

### **Miscellaneous Provisions**

#### **Rule 41. Emergency Measures in Cases of Natural Disaster, etc.**

1. If OSE considers that the settlement by Non-Clearing Participants of market transactions of derivatives based on entrustment of brokerage for clearing of securities, etc. on the OSE markets is impossible or extremely difficult due to a natural disaster, extreme change in the economic situation, supply shortage or other unavoidable reason, OSE may stipulate new settlement conditions for such transactions by resolution of the Board of Directors.
2. If OSE stipulates settlement conditions therefor pursuant to the preceding paragraph, Non-Clearing Participants must follow such stipulations.
3. In the cases enumerated in Paragraph 1, OSE may stipulate new settlement conditions without resolution of the Board of Directors when urgently necessary.

#### **Rule 42. Change in Securities of Deliverable Grade for Government Bond Futures Trading, etc.**

Where OSE deems that it is difficult for a Government Bond Futures, etc. Non-Clearing Participant to carry out settlement of large contracts by delivery/payment pertaining to large contracts on the basis of entrustment of brokerage for clearing of securities, etc. in view of the status of short or long positions, etc., OSE may take measures for changing the securities of deliverable grade or the date of delivery/payment settlement for such large contracts.

#### **Rule 43. Determination of Necessary Matters concerning Clearing and Settlement of Market Transactions of Derivatives**

OSE may, in addition to the matters provided in these Regulations, prescribe regulations regarding the required interpretation thereof if necessary concerning clearing and settlement of market transactions of derivatives on the OSE markets.

## **Brokerage Agreement Standards**

(As of September 24, 2015)

Osaka Exchange, Inc.

### **Chapter 1**

#### **General Provisions**

##### **Rule 1. Purpose**

1. Agreements concerning brokerage of market transactions of derivatives (excluding brokerage for clearing of securities, etc.) on financial instruments exchange markets established by Osaka Exchange, Inc. (hereinafter referred to as "OSE") shall be as specified in these Standards; provided, however, that matters concerning exchange foreign exchange margin transactions (meaning, among those referred to in Rule 2, Paragraph 21, Item 2 of the Financial Instruments and Exchange Act (Act No.25 of 1948; hereinafter referred to as the "Act") transactions relating to the price of currency) shall be governed by these Standards and the Special Rules for Business Regulations and Brokerage Agreement Standards Relating to Exchange Foreign Exchange Margin Trading.
2. Amendments to these Standards shall be made by resolution of the Board of Directors; provided, however, that this shall not apply in cases of minor amendments.

##### **Rule 2. Duty to Comply with Standards**

Customers and Trading Participants (meaning Futures, etc. Trading Participants prescribed in Rule 2, Paragraph 2 of the Trading Participant Regulations and Government Bond Futures, etc. Trading Participants prescribed in Paragraph 3 of the same rule; the same shall apply hereinafter) shall peruse these Standards and agree to comply therewith in executing all transactions.

##### **Rule 3. Definitions of Terms**

The meanings of the terms used in the Business Regulations shall apply to these Standards.

### **Chapter 2**

#### **Conditions for Acceptance of Entrustment of Market Transactions of Derivatives, etc.**

##### **Rule 4. Matters to be Notified by Customer**

A customer who entrusts market transactions of derivatives with a Trading Participant shall

notify such Trading Participant in advance of the matters enumerated in the following items.

- (1) Name or business name
- (2) Address or location of office
- (3) If a specific place for receiving communications is stipulated, such place
- (4) If an agent is appointed, the name or business name, and the address or location of office thereof as well as the powers assigned thereto.

#### **Rule 5. Setting Up Futures/Options Trading Account**

1. When a customer intends to set up a futures/options trading account upon entrustment of market transactions of derivatives, such customer shall make an application to a Trading Participant and obtain its approval.
2. When a customer who has obtained the approval of a Trading Participant for the application as referred to in the preceding paragraph, the customer shall complete the prescribed matters in the Agreement for Setting up Futures/Options Trading Account in the form specified by OSE, put the customer's signature and/or seal thereon and submit it to the Trading Participant.
3. For the application of the provisions of the preceding two paragraphs to a case where market transactions of derivatives that the customer intends to entrust pertain to give-up, the term "Trading Participant" shall be read as "Order Execution Trading Participant and Clearing Execution Trading Participant"; provided, however, that if the customer intends to entrust market transactions of derivatives pertaining to give-up pursuant to the provisions of Paragraph 3 of the following rule, the customer of the Order Execution Trading Participant shall set up a futures/options trading account with said Order Execution Trading Participant, and the customer of the Clearing Execution Trading Participant shall set up a futures/options trading account with said Clearing Execution Trading Participant.
4. A customer may, instead of submitting the agreement pursuant to the provisions of Paragraph 2 (including the case where the term "Trading Participant" is read as "Order Execution Trading Participant and Clearing Execution Trading Participant" in the preceding paragraph), in the case where he/she has been presented by a Trading Participant with the type and details of the electromagnetic means (meaning means using an electronic information processing facilities or any other information and communications technology that is similar to the means stipulated in Rule 57-3 of the Cabinet Office Ordinance on Financial Instruments Business, etc.; the same shall apply hereinafter in this paragraph and the following paragraph) to be employed and gives approval to the Trading Participant in writing or by electromagnetic means, notify the Trading Participant of his/her approval to the contents of such agreement by electromagnetic means. In this case, such customer shall be deemed to have submitted such agreement to the Trading

Participant.

5. A Trading Participant that has obtained approval pursuant to the provisions of the preceding paragraph, when the customer notifies the Trading Participant in writing or by electromagnetic means that he/she will not submit the notification by electromagnetic means, such Trading Participant shall not accept the notification from such customer by electromagnetic means pursuant to the provisions of the preceding paragraph; provided, however, that this shall not apply in the case where such customer again gives such approval.

**Rule 6. Conclusion of Agreement pertaining to Give-up**

1. If a customer intends to entrust market transactions of derivatives pertaining to give-up, such customer shall conclude a three-party agreement concerning acceptance of entrustment of market transactions of derivatives pertaining to give-up with the Order Execution Trading Participant and the Clearing Execution Trading Participant.
2. The agreement referred to in the preceding paragraph shall stipulate the matters enumerated in the following items:
  - (1) The amount of the brokerage commission, the party collecting it and the method of collection thereof.
  - (2) Handling in the case where a notification referred to in Rule 44, Paragraph 1, Item 2 is received (including where a notification referred to in Paragraph 1, Item 2 of the same rule is deemed to have been received pursuant to the provisions of Paragraph 2 of the same rule).
3. Notwithstanding the provisions of Paragraph 1, in the case where the customer of the Order Execution Trading Participant or the customer of the Clearing Execution Trading Participant is a trading broker (meaning the customer in the case where the customer entrusting market transactions of derivatives to the Order Execution Trading Participant is a financial instruments business operator or foreign securities broker, and where such entrustment is broking of entrustment of market transactions of derivatives to the Order Execution Trading Participant; the same shall apply hereinafter in this paragraph) or a settlement broker (meaning the customer in the case where the customer entrusting the settlement of market transactions of derivatives to the Clearing Execution Trading Participant is a financial instruments business operator or foreign securities broker, and where such entrustment is broking of entrustment of settlement of market transactions of derivatives to the Clearing Execution Trading Participant; the same shall apply hereinafter in this paragraph) and such customer's entrustment of the market transactions of derivatives pertaining to give-up to the Order Execution Trading Participant or the Clearing Execution Trading Participant is broking of entrustment from another party, if such customer has

concluded an agreement equivalent to the agreement stipulated in the preceding paragraphs with the parties stipulated in the following items, the Order Execution Trading Participant and the Clearing Execution Trading Participant may accept entrustment of the market transactions of derivatives pertaining to give-up:

- (1) In the case where the customer of the Order Execution Trading Participant is a trading broker, the said other party and the Clearing Execution Trading Participant (or, where the customer of the Clearing Execution Trading Participant is a settlement broker, the said customer).
- (2) In the case where the customer of the Clearing Execution Trading Participant is a settlement broker, the said other party and the Order Execution Trading Participant (or, where the customer of the Order Execution Trading Participant is a trading broker, the said customer).

**Rule 7. Acceptance of Orders from Customers Residing in the United States of America**

If a Trading Participant intends to accept orders for security options contracts and index options contracts from a customer residing in the United States of America, the Trading Participant shall receive the written confirmation predetermined by OSE stating the matters deemed necessary by OSE from the said customer in advance.

**Rule 8. Restrictions of Transactions by Customers**

1. Where entrusting transactions in security options pertaining to the same underlying securities to Trading Participants (including, where said customer has set up a futures/ options trading account with another Trading Participant, said other Trading Participant), customers may not make orders for new sales or new purchases, or resales or repurchases that would bring the volume enumerated in the following items on their own account to more than the limits provided in Paragraph 4. In such cases, if the security options for said underlying securities are subject to security options transactions on a financial instruments exchange market established by another domestic financial instruments exchange, the position for said security options transactions shall include the volumes enumerated in the following items:
  - (1) The difference between the total short position and the total long position in security put options.
  - (2) The difference between the total short position and total long position in security call options.
  - (3) Where the total short position exceeds the total long position in one of the differences referred to in the preceding two items and the total long position exceeds the total short

position in the other, the amount of the difference in Item 1 added to the difference in the preceding item.

2. Notwithstanding the provisions of each item of the preceding paragraph, where said underlying securities are owned, and in other cases, if OSE considers that risks that may arise due to changes in the price of said underlying securities are eliminated or reduced with respect to some or all of the volume referred to in the preceding paragraph, that said portion or all of the volume.
3. Where the customer is a financial instruments business operator that is a member of the Japan Securities Dealers Association or a foreign company that carries out business similar to financial instruments business in a foreign country and said customer declares to OSE through the Trading Participant that the orders for security options transactions pertaining to said customer are for the account of two (2) or more parties and OSE accepts this, the provisions of Paragraph 1 shall not apply. In such cases, said customer may not entrust to the Trading Participant new sales or new purchases or resales or repurchases that would bring the volume described in Paragraph 1 for the said customer's own account (or, where the preceding paragraph applies, this volume less the volume stipulated in that Paragraph; the same shall apply hereinafter in this paragraph), or the volume described in Paragraph 1 on the account of any single party other than said customer to more than the limits provided in the following paragraph.
4. The upper limit prescribed in Paragraph 1 and the preceding paragraph shall be trading units (rounding down the figures less than 100 units) constituting the number of securities equivalent to 1% (0.7% for underlying securities whose total annual trading volume on the financial instruments exchange markets established by the exchange listing the underlying security for a period of one year ending on March 31 (hereinafter in this paragraph referred to as the "base date") (or an amount specified by OSE on a case-by-case basis in consideration of the recent trading volume of the underlying security if the listing date of the underlying security is certain day on and after the following day (to be moved down if such day falls on a non-business day; the same shall apply hereinafter) of the corresponding date of the base date in the previous year) is less than 10% of the number of listed securities) of the number of listed securities (meaning, if the listing date of the underlying security is certain day on and after the following day of the corresponding date of the base date in the previous year, the number of shares listed as of a date stipulated on a case-by-case basis by OSE, and if, where the position has been adjusted pursuant to the provisions of the Business Rules of Japan Securities Clearing Corporation (hereinafter referred to as "JSCC") due to a stock split or gratis allotment of shares on the base date, new securities have not been issued, the amount of said new securities is to be

added) of the number of listed shares of the underlying security as of the base date, and such upper limit shall be, in principle, valid for a period of one year starting on the base date or later date specified from time to time by OSE.

5. Notwithstanding the provisions of the preceding paragraph, in cases where OSE deems it necessary in view of the circumstances in which there was a change in the position pursuant to the Business Rules of JSCC, the current status of trading in the underlying security, etc., OSE may determine the upper limit on a case-by-case basis in consideration of the number of listed shares of the underlying security, trading units, and other matters.

#### **Rule 9. Instructions when Entrusting Transactions**

1. When entrusting market transactions of derivatives, a customer shall instruct the Trading Participant, on each occasion, about the matters enumerated in the following items; provided, however, that in the case where the Trading Participant agrees to settle the market transactions of derivatives in accordance with the method designated in advance by the customer, the instruction referred to in Item 2 shall be deemed to have been given:
  - (1) The matters in each of the said following classification according to the classification of the market transactions of derivatives in the following a. to e.
    - a. Government bond futures contracts
      - (a) Issue
      - (b) Contract month
    - b. Index futures contracts
      - (a) Underlying index
      - (b) Large contract or mini contract for index futures contracts on Nikkei Average and TOPIX
      - (c) Contract month
    - c. Security options contracts
      - (a) Underlying security
      - (b) Quantity of an underlying security for one trading unit of the security option
      - (c) Security put option or security call option
      - (d) Contract month
      - (e) Exercise price
    - d. Government bond futures options contracts
      - (a) Underlying issue of the government bond futures contract effected by exercise
      - (b) Government bond put option or government bond call option
      - (c) Contract month

- (d) Exercise price
  - e. Index options contracts
    - (a) Underlying index
    - (b) Index put option or index call option
    - (c) Contract month
    - (d) Exercise price
  - (2) New sale or new purchase, or resale or repurchase
  - (3) In the case of strategy trading, instruction to that effect
  - (4) Quantity
  - (5) Limit of price (or limit of strategy price in the case of strategy trading)
  - (6) Conditions for validity or executed volume
  - (7) When adding conditions to bids and offers, the condition
  - (8) Trading hours
  - (9) Validity period of customer's order
2. Notwithstanding the provisions of the preceding paragraph other than those enumerated in each item, where agreed between the customer and the Trading Participant, the customer may give instructions regarding the matter enumerated in Item 2 of the preceding paragraph no later than a time stipulated by the Trading Participant before 4:30 p.m. on the trading day on which such transaction is entrusted ends.
3. In the case referred to in the preceding paragraph, if the customer fails to give the instruction referred to in the preceding paragraph to the Trading Participant by the time stipulated in the preceding paragraph, the instruction for a new sale or new purchase shall be deemed to have been given.

**Rule 10. Matters to be Instructed at Time of Entrustment of Market Transactions of Derivatives pertaining to Give-up**

1. When a customer entrusts market transactions of derivatives pertaining to give-up, he/she shall give the Order Execution Trading Participants instructions enumerated in the following items in addition to the instructions enumerated in each Item (excluding Item 2) of Paragraph 1 of the preceding rule on each occasion:
- (1) Instruction to the effect that it is a market transaction of derivatives pertaining to give-up;
  - (2) The name of the Designated Clearing Execution Trading Participant;
  - (3) Matters necessary for the Designated Clearing Execution Trading Participant to confirm which customer conducts the market transactions of derivatives pertaining to

give-up.

2. Notwithstanding the provisions of the preceding paragraph, where agreed between the customer and the Order Execution Trading Participant and the Designated Clearing Execution Trading Participant, the customer may give the instructions referred to in the preceding paragraph no later than a time stipulated by the Order Execution Trading Participant before 4:00 p.m. on the trading day on which such transaction is entrusted ends.
3. In the event that give-up is executed pursuant to the provisions of Rule 42, Paragraph 2, notwithstanding the provisions of the proviso to Paragraph 1 and Paragraph 2 of the preceding Rule, the customer shall give the Clearing Execution Trading Participant instructions enumerated in Paragraph 1, Item 2 of the preceding rule in relation to market transactions of derivatives newly arising pursuant to the provisions of Rule 42, Paragraph 3 no later than a time stipulated by the Clearing Execution Trading Participant before 4:30 p.m. on the trading day on which such transaction is entrusted ends.
4. In the event that the market transactions of derivatives a customer intends to entrust pertain to give-up, the provisions of the proviso to Paragraph 1 of the preceding rule (excluding the term "provided, however, that"; the same shall apply hereinafter) and Paragraph 2 and Paragraph 3 of the same Rule shall apply mutatis mutandis. In such cases, the term "Trading Participant" in the proviso to Paragraph 1, Paragraph 2 and Paragraph 3 shall be read as "Clearing Execution Trading Participant", the terms "Item 2" in the proviso to Paragraph 1, "the preceding paragraph" in Paragraph 2 and "the preceding paragraph" in Paragraph 3 shall be read as "Paragraph 1, Item 2 of the preceding Rule," "Paragraph 1 of the preceding Rule" and "Paragraph 2 of the preceding Rule" respectively.
5. In the event that a sale or purchase of the market transactions of derivatives pertaining to give-up is extinguished pursuant to the provisions of Rule 42, Paragraph 3, the entrustment between the customer and the Order Execution Trading Participant with respect to such market transactions of derivatives shall be terminated and at the same time, a new entrustment pertaining to settlement shall arise between the customer and the Clearing Execution Trading Participant with respect to the sale or purchase of the market transactions of derivatives that newly arises pursuant to the provisions of the same paragraph.

#### **Rule 11. Effectiveness of Customer's Order at Resumption of Trading**

A customer's order shall remain effective during the duration of said order instructed by the customer pursuant to the provisions of Rule 9, Paragraph 1. Item 9 even in the event that OSE suspends transactions in market transactions of derivatives in said period; provided, however, that this shall not apply if the customer has given the instruction to cancel such order in such

cases.

**Rule 11-2. Instructions at the Time of Government Bond Futures Transactions Executed by Exercise, etc.**

1. A customer who has entrusted with a Trading Participant exercise of a government bond futures options contract or a customer to whom exercise thereof has been assigned shall at each occasion give the Trading Participant an instruction specified in Rule 9, Paragraph 1, Items 2 with respect to a government bond futures transaction in each contract month executed by exercise.
2. The provisions of the proviso to Rule 9, Paragraph 1 shall be applied mutatis mutandis to the instructions prescribed in Paragraph 1, Item 2 of the same rule pertaining to the government bond futures transaction executed by exercise.
3. Notwithstanding the provisions of Paragraph 1, a customer may, with a prior agreement with a Trading Participant, give the instruction enumerated in Rule 9, Paragraph 1, Item 2 pertaining to government bond futures transactions executed by exercise by the cut-off time which the Trading Participant specifies no later than 8:20 a.m. of the date immediately after the trading day when the contract that was executed ends. In such cases, if the customer fails to give any instruction pertaining to the relevant matters by the designated time, it shall be deemed that the customer has given an instruction for a new sale or purchase.

**Rule 11-3. Instructions at the Time of Entrustment Pertaining to Market Transactions of Derivatives Effected Through Position Transfer, etc.**

1. Notwithstanding the provisions of Rule 9, with respect to market transactions of derivatives effected through position transfer, a customer shall give instructions per market derivatives contract month only for the matters referred to in Paragraph 1, Item 2 of the same rule pertaining to sales or purchases of government bond futures contracts by the cut-off time which the Trading Participant specifies no later than 4:30 p.m. of the date on which the trading day when the transaction pertaining to the position transfer that was effected ends. In such cases, if the customer fails to give such instruction by the time designated by the Trading Participant, it shall be deemed that the customer has given an instruction for a new sale or purchase.
2. The provisions of the proviso to Rule 9, Paragraph 1 shall be applied mutatis mutandis to the instruction prescribed in the preceding paragraph pertaining to market transactions of derivatives effected through position transfer.
3. Notwithstanding the provisions of Rule 10 and the preceding two paragraphs, in cases where a customer conducts give-up for market transactions of derivatives effected through position

transfer, the customer shall give instructions with respect to the matters enumerated in each item of Paragraph 1 of the same rule to an Order Execution Trading Participant by the cut-off time which such Order Execution Trading Participant specifies no later than 4:00 p.m. of the date on which the trading day when the transaction pertaining to position transfer that was effected ends.

4. The provisions of Rule 10, Paragraphs 3 and 4 shall be applied mutatis mutandis to the instructions on the matters enumerated in Rule 9, Paragraph 1, Item 2 by a customer of the Clearing Execution Trading Participant who conducted give-up for market transactions of derivatives effected through position transfer.

### **Chapter 3**

#### **Margin, etc.**

#### **Rule 12. Margin**

Matters concerning the margin shall be governed by the Rules on Margin and Transfer of Unsettled Contracts Pertaining to Futures/Options Contract (hereinafter referred to as "Margin Rules").

### **Chapter 4**

#### **Exercise of Options by Customer**

#### **Rule 13. Instruction of Exercise of Security Options**

1. Where a customer entrusts the exercise of security options, said customer shall give instructions on the amount pertaining to the exercise of each issue to its Trading Participant by 4:00 p.m. on the exercise date; provided, however, that for those executed on the exercise date as security options contracts pertaining to give-up, the instruction to the Trading Participant shall be made no later than 4:45p.m.
2. Notwithstanding the provisions of the preceding paragraph, where J-NET transactions are executed after the end of the trading session on the exercise date, the customer who entrusted said J-NET transactions shall, if entrusting the exercise of the relevant issues, give the instructions referred to in the preceding paragraph no later than 4:20 p.m.
3. With respect to an issue which falls under any of the following items on the exercise date, it shall be deemed that the instructions referred to in the preceding two paragraphs were given even if such instructions were not given by the time prescribed in the preceding two paragraphs; provided, however, that this shall not apply when the customer has given an instruction that he/she will not exercise the option pertaining to such issue by said cut-off time.

- (1) A security put option whose exercise price exceeds the option reference price (meaning the option reference price specified in the Business Regulations of JSCC; the same shall apply hereinafter).
- (2) A security call option whose exercise price is lower than the option reference price.
4. Where OSE deems it inappropriate to consider that instructions on exercise were given pursuant to the provisions of the main clause of the preceding paragraph due to any malfunction in the operation of the trading systems or any other unavoidable reason, such provisions of the main clause in the same paragraph shall not apply.

**Rule 13-2. Instruction of Exercise of Government Bond Futures Options**

1. Where a customer entrusts the exercise of government bond futures options, said customer shall give instructions on the amount pertaining to the exercise of each issue to its Trading Participant by 4:00 p.m. of the day of the exercise.
2. With respect to an issue which falls under any of the following items on the expiration date of the exercise period, it shall be deemed that the instructions referred to in the preceding paragraph were given even if such instructions were not given by the time prescribed in the same paragraph on that day; provided, however, that this shall not apply when the customer has given an instruction that he/she will not exercise the option pertaining to such issue by said cut-off time.

(1) A government bond futures put option whose exercise price exceeds the settlement price (see Note below) of the underlying government bond futures contract month as of a trading day that ends on the expiration date of the exercise period.

(Note) Such settlement price means a price determined by JSCC as the settlement price of the government bond futures contract; the same shall apply hereinafter.

(2) A government bond futures call option whose exercise price is lower than the settlement price of the underlying government bond futures contract month as of the trading day that ends on the expiration date of the exercise period.

3. Where OSE deems it inappropriate to consider that instructions on exercise were given pursuant to the provision of the main clause of the preceding paragraph due to any malfunction in the operation of the trading systems or any other unavoidable reason, such provisions of the main clause in the same paragraph shall not apply.

**Rule 14. Instruction of Exercise of Index Options**

1. Where a customer entrusts exercise of index options, said customer shall give the instruction

pertaining the exercise for the amount for each issue (except for the issues falling under the cases prescribed in the following items) to its Trading Participant by 4:00 p.m. on the exercise date:

- (1) An index put option whose exercise price is at the option settlement price or lower;
  - (2) An index call option whose exercise price is at the option settlement price or higher.
2. With respect to an issue which falls under any of the following items, it is deemed that the instructions referred to in the preceding paragraph were given even if such instructions were not given by the time prescribed in the same paragraph; provided, however, that this shall not apply when the customer has given an instruction that he/she will not exercise the options pertaining to such issue by said cut-off time.
- (1) An index put option whose exercise price exceeds the option settlement price;
  - (2) An index call option whose exercise price is lower than the option settlement price.

## **Chapter 5**

### **Settlement by Customer, etc.**

#### **Section 1**

#### **Settlement by Customer pertaining to Government Bond Futures Contracts**

##### **Rule 14-2. Money to be Paid/Received for Settlement**

1. The amount of money (excluding the amount of the consideration to be paid/received for settlement by delivery/payment computed pursuant to the provisions of Rule 14-7 in the case where a customer effects settlement by delivery/payment) to be paid/received between a customer and a Trading Participant for settlement of a large contract shall be determined as follows: if the customer conducts the settlement by effecting a resale or repurchase, the amount shall be the sum of the amount obtained by multiplying the difference between the contract price of his/her unsettled contract relevant to such resale or repurchase and the contract price of the resale or repurchase by 1,000,000 (one million) yen; or, if the customer conducts the settlement by delivery/payment, the amount shall be the sum of the amount obtained by multiplying the difference between a contract price of his/her unsettled contract and a delivery settlement price (meaning the price used as a basis for the computation of the amount of the consideration to be paid/received for settlement by delivery/payment; the same shall apply hereinafter) by 1,000,000 (one million) yen. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where the average value (hereinafter referred to as "average price") of unit prices of transactions

effected for the same issue on the same day may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., average prices may be used for the contract price as specified by OSE.

2. The amount of money to be paid/received between a customer and a Trading Participant for settlement of a mini contract shall be the amount equivalent to the difference between the following A and B where the customer settles the mini contract by resale or repurchase. Said amount of money shall be the amount equivalent to the difference between the following C and D where an unsettled contract based on entrustment from the customer is settled by final settlement:

A: The contract price pertaining to unsettled contracts based on entrustment from the customer which corresponds to said resale or repurchase

B: The contract price pertaining to said resale or repurchase

C: The contract price pertaining to unsettled contracts based on entrustment from the customer

D: The final settlement price

In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., average prices may be used for the contract price as specified by OSE.

3. In cases where a customer conducts settlement of government bond futures transactions, in the event that a customer incurs loss, the customer shall pay the Trading Participant the amount of money equivalent to the amount of such loss. In such cases, if the customer conducts the settlement by effecting resale or repurchase, such payment shall be made by the time and date designated by the Trading Participant but no later than the day after the trading day on which the resale or repurchase was effected; provided, however, that if the customer is a "non-resident" (meaning a non-resident prescribed in Article 6, Paragraph 1, Item 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949); the same shall apply hereinafter in this chapter), the payment shall be made by the time and date designated by the Trading Participant but no later than the second day (excluding non-business days; the same shall apply hereinafter in terms of counting the number of days) after the trading day. If the customer intends to conduct settlement by delivery/payment for large contracts, such payment shall be made by the time and date designated by the Trading Participant but no later than the day after the last trading day (or the second day after the last trading day, if the customer is a

non-resident) of the relevant contract month. If the customer intends to conduct final settlement for mini contracts, such payment shall be made by the time and date designated by the Trading Participant which is by the final settlement date (or the following day if the customer is a non-resident) of said contract month.

**Rule 14-3. Appropriation of Margin to Payment for Settlement**

A Trading Participant may appropriate the amount of money to be submitted or deposited therewith by a customer as of the day on which the customer should make payment to the Trading Participant as a margin or the amount of money equivalent to the customer's unrealized gain prescribed in the Margin Rules for the payment that should be made by the customer to the Trading Participant pursuant to the provisions of Paragraph 3 of the preceding rule.

**Rule 14-4. Deliverable Bonds**

For settlement by delivery/payment of large contracts between a customer and a Trading Participant, government bonds enumerated in each of the following items shall be treated as the deliverable grade.

- (1) For standardized mid-term government bonds, coupon-bearing government bonds with remaining maturity of 4 years or more but less than 5 years and 3 months both on the issue date and the date of settlement by delivery/payment, and whose issue date falls in a month that is three or more months prior to the month in which the date of settlement by delivery/payment falls.
- (2) For standardized long-term government bonds, coupon-bearing government bonds with remaining maturity of 7 years or more but less than 11 years both on the issuance day and the day of settlement by delivery/payment, and whose issuance day falls under a month that is three or more months prior to the month in which the date of settlement by delivery/payment falls.
- (3) For standardized super long-term government bonds, coupon-bearing government bonds with remaining maturity of 19 years and 3 months or more but less than 21 years both on the issue date and the date of settlement by delivery/payment, and whose issue date falls under a month that is four or more months prior to the month in which the date of settlement by delivery/payment falls.

**Rule 14-5. Computation of Conversion Factors between Deliverable Bonds and Standardized Government Bonds**

In cases of a customer conducting settlement by delivery/payment of large contracts, the

conversion factors between deliverable bonds and the standardized government bonds shall be computed in accordance with the attached "Table for Computation of Conversion Factors between Deliverable Bonds and Standardized Government Bonds" in the Business Regulations.

Rule 14-6. Deleted.

**Rule 14-7. Method of Computation of the Amount of Consideration for Settlement by Delivery/Payment**

1. The amount of consideration for settlement by delivery/payment to be paid/received between a customer and a Trading Participant for settlement by delivery/payment for large contracts shall be the amount obtained by multiplying the product of the delivery/payment settlement price of the contract month and the conversion factor calculated pursuant to the provisions of Rule 14-5 for the deliverable bond designated by a customer who entrusted the sale (hereinafter referred to as a "selling customer") or the deliverable bond designated by the Trading Participant for each customer who entrusted the purchase (hereinafter referred to as a "buying customer") by 1/100 (one hundredth) of the total amount of face value of such deliverable bond.
2. Accrued interest to be paid/received in settlement by delivery/payment shall be added to the amount of consideration for settlement by delivery/payment computed pursuant to the provisions of the preceding paragraph.

**Rule 14-8. Combination of Securities of Deliverable Grade**

A selling customer shall be granted an option regarding combination of securities of deliverable grade for each deliverable bond in integral multiples of the trading unit.

**Rule 14-9. Notification of Securities of Deliverable Grade**

A selling customer who conducts settlement by delivery/payment for large contracts shall notify the Trading Participant of issues of government bonds and the quantity thereof by the time and date designated as necessary for the settlement for delivery/payment by the Trading Participant.

**Rule 14-10. Delivery/Payment Cut-off Time for Customer**

For settlement by delivery/payment for large contracts, a customer shall deliver government bonds he/she/it sold or pay the purchase considerations to the Trading Participant by the time and date designated by the Trading Participant as necessary for settlement by delivery/payment for large contracts.

**Rule 14-11. Delivery by Book-entry Transfer**

When settlement by delivery/payment for large contracts is conducted between a customer and a Trading Participant, the Trading Participant shall, by establishing an account for the customer pursuant to the Act Concerning Book-Entry Transfer of Corporate Bonds, Stocks, etc. (Act No. 75 of 2001; hereinafter referred to as the "Book-Entry Transfer Act"), deliver or receive government bonds pertaining to his/her purchase or sale contract by book-entry transfer through such account; provided, however, that this shall not apply in the case that a customer delivers or receives government bonds by book-entry transfer through an account with the Bank of Japan.

**Rule 14-12. Application of BOJ Book-Entry Regulations**

Settlement by delivery/payment for large contracts shall, in addition to the provisions prescribed in these Standards, be subject to an agreement between a Trading Participant and a customer pursuant to the provisions of the BOJ Book-Entry Regulations as prescribed by the Bank of Japan.

**Section 1-2****Use of Cross Margining by Customers****Rule 14-13. Offer pertaining to Application for Cross Margining**

1. In cases where a customer is a cross margining user specified in the Business Rules of JSCC, the customer may make an offer pertaining to the application for cross margining to Trading Participants with respect to the position for government bond futures transactions for the said customer's account.
2. A customer shall make the offer to Trading Participants pursuant to the provisions of the preceding paragraph, after confirming that the position concerning the offer does not exceed the position for government bond futures transactions for the said customer's account.
3. Notwithstanding the provisions of Paragraph 1, in the event that a cross margining applicant may not apply for cross margining as specified by JSCC, customers of such cross margining applicant or customers of the Non-Clearing Participants which designate such cross margining applicant as Designated Government Bond Futures, etc. Clearing Participant may not make an offer pertaining to the application for cross margining to the Trading Participants.

**Section 1-3****Settlement by Customer relating to Index Futures Contracts**

**Rule 15. Money to be Paid/Received for Settlement Relating to Index Futures Contracts**

1. The amount of money to be paid/received between a customer and a Trading Participant for settlement of an index futures contract shall be the amount equivalent to the difference between the following A and B where the customer settles the index futures contract by resale or repurchase. Said amount of money shall be the amount equivalent to the difference between the following C and D where an unsettled contract based on entrustment from the customer is settled by final settlement:

A: The contract price pertaining to unsettled contracts based on entrustment from the customer which corresponds to said resale or repurchase

B: The contract price pertaining to said resale or repurchase

C: The contract price pertaining to unsettled contracts based on entrustment from the customer

D: The final settlement price

In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., average prices may be used for the contract price as specified by OSE.

2. In cases where a customer conducts settlement of index futures transactions, in the event that a customer incurs loss, the customer shall pay the Trading Participant the amount of money equivalent to the amount of such loss. In such cases, if the customer conducts the settlement by effecting resale or repurchase, such payment shall be made by the time and date designated by the Trading Participant but no later than the day after the trading day on which the resale or repurchase was effected; provided, however, that if the customer is a non-resident, the payment shall be made by the time and date designated by the Trading Participant but no later than the second day after the trading day. If the customer intends to conduct final settlement, such payment shall be made by the time and date designated by the Trading Participant which is by the final settlement date (or the following day if the customer is a non-resident) of said contract month.

**Rule 16. Appropriation of Margin to Payment for Settlement**

A Trading Participant may appropriate the amount of money to be submitted or deposited therewith by a customer as of the day on which the customer should make payment to the Trading Participant as a margin or the amount of money equivalent to the customer's unrealized gain prescribed in the Margin Rules for the payment that should be made by the customer to the

Trading Participant pursuant to the provisions of Paragraph 2 of the preceding rule.

## Section 2

### Settlement by Customer relating to Security Options Contracts

#### Rule 17. Payment of Option Premium

With respect to an order for purchase of security options contracts, a customer shall pay the Trading Participant the option premium pertaining to such purchase by the time and date designated by the Trading Participant but no later than the day following the day on which the purchase is effected; provided, however, that if the customer is a non-resident, the payment shall be made by the time and date designated by the Trading Participant but no later than the second day after the day on which said transaction is executed. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be calculated based on average prices as specified by OSE.

#### Rule 18. Appropriation of Margin to Payment of Option Premium for Settlement

A Trading Participant may appropriate the amount of money submitted or deposited therewith by a customer as of the day on which the customer should make payment to the Trading Participant for the settlement or the amount of money equivalent to the customer's unrealized gain prescribed in the Margin Rules for the option premium that should be paid by the customer to the Trading Participant pursuant to the provisions of the preceding rule. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be calculated based on average prices as specified by OSE.

#### Rule 19. Settlement Cut-off Time, etc. for Exercise of Options by Customer

1. For settlement of trades in underlying securities executed where the customer has given instructions prescribed in Rule 13, Paragraph 1 and Paragraph 2 and where the customer has been assigned exercise of security options contracts, the money or securities provided in Rule 21 pertaining to trades in underlying securities executed by said exercise shall be submitted to

the Trading Participant no later than 9:00 a.m. on the fourth day following the exercise date; provided, however, that for the settlement of the transactions in underlying securities executed by the exercise on the day (to be moved up in order if it falls on a non-business day; the same shall apply hereinafter) preceding the date (limited to the date prescribed by the designated exchange and related to regular transactions; the same shall apply hereinafter) of ex-dividend, etc. or the date (limited to the date on which the trading of shares (including investment trust beneficiary certificates and investment securities; the same shall apply hereinafter) after the reverse stock split prescribed by the designated exchange and related to regular transactions; the same shall apply hereinafter) on which the trading of shares after reverse stock split starts, it shall be deposited no later than 9:00 a.m. on the third day following the exercise date.

- 2, Notwithstanding the provisions of the preceding paragraph, if the Trading Participant designates, when receiving exercise instruction or assigning exercise, a date and time no later than the settlement cut-off time stipulated by JSCC, the customer shall deliver the money or securities provided in Rule 21 to the Trading Participant no later than said date and time.

**Rule 20. Delivery by Customer where DVP Settlement is Used**

1. For trades in underlying securities executed where the customer has given instructions prescribed in Rule 13, Paragraph 1 and where the customer has been assigned exercise of security options contracts, if DVP settlement is used by agreement between the customer and the Trading Participant as provided in the Business Rules of JASDEC DVP Clearing Corporation (hereinafter referred to as "JDCC"), the customer shall deliver the securities or pay the funds to JDCC no later than the settlement cut-off time stipulated by JDCC (or, for delivery of securities, before the settlement cut-off time stipulated by JSCC designated by the Trading Participant at the time of the agreement) on the day stipulated in Paragraph 1 of the preceding Rule.
2. In the event that a customer delivers securities or pays funds pursuant to the provisions of the preceding paragraph, said delivery of securities or payment of funds shall be deemed to be the delivery of selling securities or delivery of purchase funds referred to in Paragraph 1 of the preceding Rule.

**Rule 21. Money and Securities Delivered for Settlement**

1. The amount of money or securities that the customer delivers to the Trading Participant for the purpose of settlement of trades in underlying securities executed by exercise provided in the preceding Rule shall be as stipulated in the following items in accordance with the categories prescribed respectively in those Items:

- (1) Where the quantity of an underlying security for one trading unit of the security option is the number in a trading unit of the underlying security:
  - a. When the said customer is the selling customer in the transaction in underlying securities executed by exercise:

The amount of securities calculated by multiplying the amount of securities underlying 1 unit of the security option by the amount of the security option pertaining to exercise.
  - b. When the said customer is the purchasing customer in the transaction in the underlying security executed by exercise:

The purchase money (the amount calculated by multiplying the amount obtained by multiplying the number of securities underlying 1 unit of the security option by the exercise price (any fraction less than 1 yen shall be rounded down) by the number of security options pertaining to exercise).
- (2) Where the quantity of an underlying security for one trading unit of the security option is greater than the trading unit of the underlying security:
  - (a) When the said customer is the selling customer in the transaction in the underlying security executed by exercise:
    - (i) The amount of money equivalent to the amount calculated by multiplying the amount obtained by multiplying the amount less than a trading unit by the option settlement price (any fraction less than 1 yen shall be rounded down) by the amount of security options exercised.
    - (ii) The amount of securities calculated by multiplying the number of securities (3) underlying 1 unit of the security option less the amount less than the trading unit by the number of security options exercised.
  - (b) When the said customer is the purchasing customer in the transaction in underlying securities executed by exercise: The purchase money.
- (3) Where the quantity of an underlying security for one trading unit of the security option is less than the number in a trading unit of securities underlying the option.
  - (a) When the said customer is the selling customer in the transaction in underlying securities executed by exercise:

The provisions of (a)(i) of the preceding item shall apply.
  - (b) When the said customer is the purchasing customer in the transaction in underlying securities executed by exercise:

The purchase money.

2. In the case where the money provided in Item 2 of the preceding paragraph is settled between

the customer and the Trading Participant, it shall be done by giving or receiving money equivalent to the difference between the money provided in Item 2 (a)(i) of the preceding paragraph and the purchase money provided in (b) of the same item, and where the money provided in Item 3 of the preceding paragraph is settled between the customer and the Trading Participant, it shall be done by giving or receiving money equivalent to the difference between the money provided in (i) of the same Item and the purchase money provided in (ii) of the same item.

**Rule 22. Measures when Receiving Delivery of Due Bills**

In the event that a Trading Participant receives the delivery of due bills in place of the purchasing underlying securities upon settlement of the purchase of underlying securities executed by exercise of security options contracts, the Trading Participant may, with the approval of the purchasing customer, defer delivery of said purchasing underlying securities to the customer.

**Rule 23. Restrictions of Securities Eligible for Settlement**

With respect to the delivery or receiving of securities relating to the settlement of transactions in underlying securities executed by exercise of security options contracts, in the event that the rights and obligations of old and new securities are the same and both securities are consolidated and then traded, they shall be handled as the same for settlements coming on or after the day on which said trading begins.

**Rule 24. Application of Regulations of JASDEC, etc.**

A brokerage agreement for transactions in underlying securities executed by exercise of security options contracts shall, in addition to the provisions of these Standards, be in accordance with the agreement concluded between the Trading Participant and the customer under the Business Regulations relating to Stocks, etc. stipulated by Japan Securities Depository Center, Inc. (hereinafter referred to as "JASDEC").

**Rule 25. Delivery by Book-Entry Transfer**

When having received entrustment of security options transactions from a customer, a Trading Participant shall set up an account under the Book-Entry Transfer Act for said customer and conduct delivery of securities pertaining to sales and purchases of underlying securities executed by exercise of security options contracts thereof by book-entry transfer through that account; provided, however, that this shall not apply to cases where delivery of the securities is

to be conducted by book-entry transfer through another account of said customer under the Book-Entry Transfer Act.

**Rule 26. Provision of Credit by Trading Participants for Customer's Exercise**

1. In the case where a customer gives instructions on exercise of security options contracts or receives credit from a Trading Participant for the purpose of settlement of trades in underlying securities (limited to those issues that can be traded on margin on OSE; the same shall apply hereinafter in this Rule) executed where the customer has been assigned exercise (limited, in cases of exercise of security options contracts for the security options provided in Rule 21, Paragraph 1, Item 2, to those relating to the amounts of securities provided in (a)(ii) of the same item), the customer shall set up a margin trading account under the provisions of Rule 5 of the Brokerage Agreement Standards in advance.
2. With respect to opening a margin trading account, such customer shall make an application to a Trading Participant, and shall obtain its approval.
3. When a customer has obtained the approval of a Trading Participant for the application as described in the preceding paragraph, the customer shall complete the prescribed matters in the Agreement for Setting up Margin Trading Account in the form specified by OSE, put the customer's signature and/or seal thereon and submit it to the Trading Participant.
4. The provisions of Rule 5, Paragraph 4 and Paragraph 5 shall be applied mutatis mutandis to the submission of the agreement pursuant to the provisions of the preceding paragraph. In this case, "the provisions of Paragraph 2 (including the case where the term "Trading Participant" shall be "Order Execution Trading Participant and Clearing Execution Trading Participant" in the preceding paragraph)" in Paragraph 4 of the same rule shall be deemed to be replaced with "the provisions of the preceding paragraph."
5. The credit in Paragraph 1 shall apply mutatis mutandis to the Chapter 4 of the Brokerage Agreement Standards of TSE In this case "Trading Participant" shall be deemed to be replaced with "Futures, etc. Trading Participant of Osaka Exchange, "day on which the transactions are executed" in Rule 39 shall be deemed to be replaced with "day following the exercise date", "day on which the sale or purchase on margin is executed" in Rule 43 shall be deemed to be replaced with "day following the exercise date" and "day on which such loss calculation arises" in Rule 48 shall be deemed to be replaced with "day on which such loss calculation arises or the day following the exercise date".
6. If a customer who has set up a margin trading account with the Trading Participant applies with said Trading Participant to conduct transactions on margin in underlying securities executed by exercise or assignment of exercise no later than the day following the exercise date(or, if the

exercise date falls on the day before the dates of ex-dividend etc. or the date in which the trading of shares after stock merger pertaining to said transaction in securities underlying the option, the exercise date; the same shall apply hereinafter in this Paragraph), and indicates to said Trading Participant whether it is to be a standardized margin transaction or a negotiable margin transaction, a sale or purchase of said underlying securities shall be executed on margin on the day following the exercise date.

7. In the cases referred to in the preceding paragraph, where the total amount of deposited margin stipulated in Rule 33, Paragraph 1 of the Margin Rules exceeds the customer's margin requirement (excluding amounts related to the said exercise), stipulated in Rules on Margins, etc. pursuant to the provisions of the Business Rules of JSCC, notwithstanding the provisions of Rule 35, Paragraph 1 of the Rules on Margins, etc., the customer may withdraw said excess amount (in the case of money, limited to the money excess amount provided in Paragraph 1, Item 1 of the same Rule) and apply it to the customer margin for margin transactions that said customer is to deposit.
8. In the case in Paragraph 5, where the customer settles said margin transaction by means of an offsetting transaction for a corresponding amount of the same issue as the security underlying the option (limited to those where the settlement date stipulated by OSE pertaining to said offsetting transaction is the same date as the settlement date stipulated by OSE pertaining to the purchase or sale of the security underlying options on margin), the provisions of Rule 39 of the Brokerage Agreement Standards of TSE as applied *mutatis mutandis* in the same paragraph shall not apply.

## **Section 2-2**

### **Settlement by Customer pertaining to Government Bond Futures Options Contracts, etc.**

#### **Rule 26-2. Settlement Cut-off time for Customer**

With respect to an order for purchase of government bond futures options, a customer shall pay the Trading Participant the option premium pertaining to such purchase by the time and date designated by the Trading Participant but no later than the day following the ending day of the trading day on which the purchase was executed; provided, however, that if the customer is a non-resident, the payment shall be made by the time and date designated by the Trading Participant but no later than the second day after the ending day of the trading day. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the

outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be calculated based on average prices as specified by OSE.

**Rule 26-3. Appropriation of Margin to Payment of Option Premium**

A Trading Participant may appropriate the amount of money submitted or deposited therewith by a customer as of the day on which the customer should make payment to the Trading Participant for the settlement or the amount of money equivalent to the customer's unrealized gain prescribed in the Margin Rules for the payment that should be made by the customer to the Trading Participant pursuant to the provisions of the preceding rule. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be calculated based on average prices as specified by OSE.

**Section 3**

**Settlement by Customer relating to Index Options Contracts**

**Rule 27. Money to be Paid/Received for Settlement Relating to Index Options Contracts**

The amount of money to be paid/received between a customer and a Trading Participant for settlement of an index option contract shall be the option premium in the case that the sale or purchase has been executed for the said customer's account, and the amount equivalent to the difference between the exercise price and the option settlement price in the case of settlement of exercise for the said customer's account. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be calculated based on average prices as specified by OSE.

**Rule 28. Settlement Cut-off Time for Customer**

When a customer conducts the settlement referred to in the preceding paragraph, the customer shall pay the Trading Participant the option premium pertaining to the purchase or the amount of money corresponding to receipt of the assignment of the exercise by the date and time

designated by the Trading Participant but no later than the day following the day on which the trading day on which the transaction is executed ends or the exercise date (or the second day following the day on which the trading day on which the transaction is executed ends or the exercise date in the case the customer is a non-resident). In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be calculated based on average prices as specified by OSE.

**Rule 29. Appropriation of Margin to Payment of Option Premium for Settlement**

A Trading Participant may appropriate the amount of money submitted or deposited therewith by a customer as of the day on which the customer should make payment to the Trading Participant for the settlement or the amount of money equivalent to the customer's unrealized gain prescribed in the Margin Rules for the payment of option premium or money that should be made by the customer to the Trading Participant pursuant to the provisions of the preceding rule. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be calculated based on average prices as specified by OSE.

**Chapter 6**

**Transfer of Unsettled Contracts, etc.**

**Rule 30. Treatment of Unsettled Contracts for Customer's Account, etc.**

Matters concerning the transfer of unsettled contracts for a customer's account shall be prescribed in the Margin Rules.

**Chapter 7**

**Miscellaneous Provisions**

**Rule 31. Measures Taken by Trading Participant Receiving Instructions for Improvement of Position Holding**

1. In the event that a Trading Participant that is a Clearing Participant (meaning a Government

Bond Futures, etc. Clearing Participant (meaning the Government Bond Futures, etc. Clearing Participant prescribed in Rule 4, Paragraph 1 of the Clearing and Settlement Regulations; the same shall apply hereinafter) or an Index Futures, etc. Clearing Participant prescribed in Rule 4, Paragraph 2 of the same regulations; the same shall apply hereinafter) receives an instruction for improvement of position holding (meaning an instruction for improvement of position holding based on the provisions of the Business Rules of JSCC; the same shall apply hereinafter), such Trading Participant may request the customer who has entrusted market transactions of derivatives closely related to the reason for such improvement instruction to settle or transfer to another Trading Participant the unsettled contracts for such customer's account; provided, however, that the said request may be made only when said Clearing Participant receives such improvement instruction as a result of the said customer's failure, without justifiable grounds, to comply with the measures provided in Rule 29-2, Paragraph 2 of the Business Rules of JSCC relating to clearing margin for market transactions of derivatives for the said customer's account, despite the implementation thereof.

2. In the cases referred to in the preceding paragraph, a Trading Participant that is said Clearing Participant may conduct a resale or repurchase, etc. (meaning a resale or repurchase relating to futures transactions, a resale or repurchase relating to options transactions or exercise (including entrustment thereof); the same shall apply hereafter in this Rule) for the said customer's account in order to settle the market transactions of derivatives based on the said customer's order to the extent deemed reasonably necessary; provided, however, that such resale or repurchase, etc. may be conducted only if the said Trading Participant that is a Clearing Participant has failed to comply with such improvement instruction even having made reasonable efforts to comply with such improvement instruction by other means, and when, despite the Trading Participant's request referred to in the same paragraph to the said customer, setting a reasonable grace period in advance, the said customer has not complied with it without justifiable grounds.
3. The provisions of the preceding two paragraphs shall apply mutatis mutandis to cases where a Designated Clearing Participant (meaning an Agency Clearing Participant designated by the following Non-Clearing Participant pursuant to the provisions of Rule 27, Paragraph 1 of the Trading Participant Regulations (see Note below)) pertaining to a Non-Clearing Participant (meaning a Government Bond Futures, etc. Non-Clearing Participant prescribed in Rule 24, Paragraph 2 of the Trading Participant Regulations or an Index Futures, etc. Non-Clearing Participant prescribed in Rule 24, Paragraph 3 of the same regulations; the same shall apply hereinafter) receives an improvement instruction and when such Designated Futures Options Clearing Participant has instructed such Futures Options Non-Clearing Participant to settle or

transfer to another Futures Options Clearing Participant the unsettled contracts of index options based on entrustment of broking of clearing of securities, etc. of the said Futures Options Non-Clearing Participant.

(Note) Such Agency Clearing Participant means an entity that has an Agency Clearing Qualification pertaining to a Government Bond Futures, etc. Clearing Qualification (meaning JGB Futures Clearing Qualification prescribed in the Business Regulations of JSCC) or an Index Futures, etc. Clearing Qualification (meaning Index Futures Clearing Qualification prescribed in the Business Regulations of JSCC)

### **Rule 32. Payment and Receipt of Money in Foreign Currencies**

Payment and receipt of money pertaining to transactions in market transactions of derivatives (including underlying securities executed by exercise of security options contracts) between a customer and a Trading Participant may be made in a foreign currency designated by the customer if the Trading Participant so agrees.

### **Rule 33. Measures in Case of Customer's Failure to Settle Transactions**

1. In case that a customer does not deposit the margin to be deposited with, or fails to pay money or option premium pertaining to purchases to a Trading Participant by the prescribed cut-off time (including, in cases of large contracts pertaining to government bond futures, the time and date designated by the Trading Participant deeming it necessary as prescribed in Rule 14-10), such Trading Participant may, at its own discretion, conduct a resale, repurchase, settlement by delivery/payment, or the final settlement relating to futures transactions (excluding contracts for clearing on government bond futures subject to cross-margining specified in the Business Rules of JSCC), a resale or repurchase relating to options transactions or a resale or a purchase agreement relating to exercise or securities (including entrustment thereof) for the said customer's account to settle such market transactions of derivatives. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., the option premium may be calculated based on average prices as specified by OSE.
2. In the event that the Trading Participant suffers losses in the case referred to in the preceding paragraph, the Trading Participant may appropriate the money and securities possessed or recorded in the account under the Book-Entry Transfer Act by such Trading Participant on

behalf of the customer as compensation for such losses, and if there still remains any deficit, demand the payment of the amount equal to such deficit from the customer.

**Rule 34. Effectiveness of Cancellation of Transactions, etc.**

1. In the event that OSE cancels transactions, rights and obligations between the customer and the Trading Participant pertaining to said cancelled transactions shall be deemed never to have arisen.
2. A customer may not claim compensation for damages against the Trading Participant that placed an erroneous order even if they have suffered losses as a result of OSE's canceling transactions; provided, however, that this shall not apply to cases in which the Trading Participant is considered to have been intentional or grossly negligent in placing the erroneous order.
3. A customer may not claim compensation for damages against OSE even if they have suffered losses as a result of OSE's canceling transactions; provided, however, that this shall not apply to cases in which OSE is considered to have been intentional or grossly negligent.

先物・オプション取引口座設定約諾書

私は、株式会社日本証券クリアリング機構（以下「クリアリング機構」という。）が金融商品取引清算機関として金融商品債務引受業を行う対象とする市場デリバティブ取引（通貨に係るものを除く。）（以下「先物・オプション取引」という。）の特徴、制度の仕組み等取引に関し、貴 から受けた説明の内容を十分把握し、私の判断と責任において先物・オプション取引の委託を行います。つきましては、貴 に先物・オプション取引口座を設定するに際し、金融商品取引法（昭和 23 年法律第 25 号。以下「法」という。）その他の法令、先物・オプション取引が行われる金融商品市場を開設する金融商品取引所（第 10 条第 3 項並びに第 4 項第 1 号及び第 2 号を除き、以下単に「金融商品取引所」という。）の定款、業務規程、受託契約準則、取引参加者規程、清算・決済規程、先物・オプション取引に係る証拠金及び未決済約定の引継ぎ等に関する規則（以下「証拠金規則」という。）、その他諸規則及び決定事項、クリアリング機構の業務方法書、金利スワップ取引業務方法書、先物・オプション取引に係る取引証拠金等に関する規則及び決定事項並びに慣行中、先物・オプション取引の条件に関連する条項に従うとともに、次の各条に掲げる事項を承諾し、これを証するため、この約諾書を差し入れます。なお、本約諾書における用語の意義は、金融商品取引所の定款、業務規程、受託契約準則及び先物・オプション取引に関するこれら諸規則に係る特例、取引参加者規程、清算・決済規程、証拠金規則並びにクリアリング機構の業務方法書及び先物・オプション取引に係る取引証拠金等に関する規則において定めるところに従います。

AGREEMENT FOR SETTING UP FUTURES/OPTIONS  
TRADING ACCOUNT

I/We fully understand the explanation your company has given me/us regarding the features, system, working mechanism and other relevant matters of exchange derivatives transactions (excluding those related to currencies) for which Japan Securities Clearing Corporation (hereinafter referred to as "JSCC") provides financial instruments obligation assumption services as a financial instruments clearing organization (hereinafter collectively referred to as "Futures/Options Trading"), and I/we will entrust Futures/Options Trading with your company on my/our own judgment and responsibility. In setting up a Futures/Options Trading Account (hereinafter referred to as the "Account") with your company, I/we hereby agree to abide by provisions related to conditions for Futures/Options Trading, out of: the Financial Instruments and Exchange Act (Act No. 25 of 1948, hereinafter referred to as the "Act" and other laws and regulations; the Articles of Incorporation (*Teikan*), the Business Regulations (*Gyoumu Kitei*), the Brokerage Agreement Standards (*Jutaku Keiyaku Junsoku*), the Trading Participant Regulations (*Torihiki Sankasha Kitei*), the Clearing and Transfer of Unsettled Contracts Pertaining to Futures/Options Contract (hereinafter referred to as the "Margin Rules"), other regulations and the decisions of the Financial Instruments Exchanges (hereinafter referred to as "Financial Instruments Exchanges," except in Article 10, Paragraph 3 and Paragraph 4, Items 1 and 2); the Business Rules (*Gyoumu Hohosho*), the Interest Rate Swap Clearing Business Rules, the Rules on Margins, etc. regarding Futures/Options Trading, decisions of JSCC; and practices, and hereby further acknowledge and agree to the terms and conditions provided in the following articles, and in witness whereof, submit this Agreement to your company. The terms used herein shall have the same meaning as the terms defined in the Articles of Incorporation, the Business Regulations, the Brokerage Agreement Standards, the special regulations for such rules and regulations concerning Futures/Options Trading, Trading Participant Regulations, the Clearing and Settlement Regulations and the Margin Rules of the Financial Instruments Exchanges, and the Business Rules and the Margin Rules, etc. of JSCC pertaining to Futures/Options Trading.

**(先物・オプション取引口座による処理)**

第1条 私が今後貴 に対して行う先物・オプション取引のうち私が指定する取引の委託において、次に掲げる事項をすべてこの先物・オプション取引口座で処理すること。

- (1) 法第2条第21項第1号に掲げる取引に係る買付代金、売付代金、買付有価証券、売付有価証券、証拠金（取引証拠金及び委託証拠金を含む。以下この条において同じ。）、計算上の損益金、決済に伴う損益金、その他授受する金銭
- (2) 法第2条第21項第2号に掲げる取引に係る証拠金、計算上の損益金、決済に伴う損益金、その他授受する金銭
- (3) 法第2条第21項第3号に掲げる取引に係る売付け又は買付けに係る取引代金、証拠金、権利行使に伴い授受する有価証券及び金銭（信用取引による売付け又は買付けが成立した場合を除く。）、その他授受する金銭

**(証拠金の目的)**

第2条 証拠金は、私が貴 に対して負担する先物・オプション取引に係る債務の履行を確保することを目的とするものであること。

- 2 証拠金のうち取引証拠金は、貴 がクリアリング機構に対して支払い若しくは引き渡すべき私の委託に基づく貴 の先物・オプション取引に係る債務の履行を確保すること及び私が貴 に対して負担する先物・オプション取引に係る債務の履行を確保することを目的とするものであること。
- 3 前項の規定にかかわらず、貴 が非清算参加者である場合には、証拠金のうち取引証拠金は、貴 の指定清算参加者がクリアリング機構に対して支払い若しくは引き渡すべき私の委託に基づく貴 の指定清算参加者の先物・オプション取引に係る債務の履行、貴 が貴 の指定清算参加者に対して支払い若しくは引き渡すべき私の委託に基づく貴 の先物・オプション取引に係る債務の履行及び私が貴 に対して負担する先物・オプション取引に係る債務の履行を確保することを目的とするものであること。

**Article 1. (Management through the Account)**

With respect to the Futures/Options Trading which I/we will hereafter conduct through your company, the following items shall be managed through the Account:

- (1) Purchase funds, sales proceeds, securities purchased or sold, margin (including clearing margin and brokerage margin; the same shall apply in this Article), unrealized loss or profit, loss or profit at settlement, or other money payable or receivable concerning trades set forth in Article 2, Paragraph 21, Item 1 of the Act ;
- (2) Margin, unrealized loss or profit, loss or profit at settlement, or other money payable or receivable concerning trades set forth in Article 2, Paragraph 21, Item 2 of the Act; and
- (3) Premiums for sales or purchases, margin, money payable or receivable or securities deliverable or receivable upon exercise of an option (except when a sale or purchase in margin trading is carried out) and other money payable or receivable concerning trades set forth in Article 2, Paragraph 21, Item 3 of the Act.

**Article 2. (Purpose of Margin)**

The purpose of margin shall be to ensure my/our performance of obligations to your company relating to Futures/Options Trading.

2. The purpose of clearing margin, which is included in the margin, is to ensure your company's performance of obligations for payment or delivery by your company to JSCC relating to Futures/Options Trading based on my order and to ensure my performance of obligations to your company relating to Futures/Options Trading.
3. Notwithstanding the provisions of the preceding paragraph, in the case where your company is a non-clearing participant, the purpose of clearing margin, which is included in the margin, is to ensure your company's designated clearing participant's performance of obligations for payment or delivery by your company's designated clearing participant to JSCC relating to Futures/Options Trading based on my order, to ensure your company's performance of obligations for payment or delivery by your company to your company's designated clearing participant relating to Futures/Options Trading based on my order, and to ensure my performance of obligations to your company relating to Futures/Options Trading.

(取引証拠金及び委託証拠金)

第3条 私がこの先物・オプション取引口座を通じて貴 に差し入れた証拠金 (私の現金支払予定額に相当する額の金銭を除く。以下同じ。) は、貴 が保管するのではなく、私の代理人である貴 (貴 が非清算参加者である場合には、貴 及び貴 の指定清算参加者) が、私の委託に基づく未決済約定に係る取引証拠金としてそのままクリアリング機構に直接預託し、クリアリング機構で保管されること。ただし、私が貴 に証拠金を差し入れた日から起算して4日目 (金融商品取引所が定める休業日を除く。) の日までの間は、貴 が取引証拠金としてこれを保管し、貴 自身が所有するこれに相当する金銭又は代用有価証券が差換預託されることがあり得ることについて異議のないこと。

2 前項の規定にかかわらず、私が別に書面による同意をした場合は、私が差し入れ又は預託した証拠金の全部又は一部について、次の各号のいずれかに定める方法により、これに相当する金銭又は代用有価証券が差換預託されることがあり得ることについて異議のないこと。

- (1) 私が預託した証拠金を貴 が委託証拠金として保管し、これに相当する貴 自身が所有する金銭又は代用有価証券が取引証拠金としてクリアリング機構に差換預託される方法
- (2) 貴 が非清算参加者である場合において、私が預託した証拠金を貴 が委託証拠金として保管し、これに相当する貴 自身が所有する金銭又は代用有価証券が非清算参加者証拠金として貴 の指定清算参加者に預託され、当該非清算参加者証拠金に相当する貴 の指定清算参加者自身が所有する金銭又は代用有価証券が取引証拠金としてクリアリング機構に差換預託される方法

(代理人)

第4条 私は、貴 (貴 が非清算参加者である場合には、貴 及び貴 の指定清算参加者) を代理人としてクリアリング機構に対する私の取引証拠金の預託及びその返戻を行うこと。

2 前項に定める代理は、以下を条件とすること。

**Article 3. (Clearing Margin and Brokerage Margin)**

Margin (excluding the amount equivalent to the amount I/we are scheduled to pay; the same shall apply hereinafter) submitted to your company by me/us through the Account shall not be kept by your company (In the case where your company is a non-clearing participant, your company and your designated clearing participant), but shall be directly deposited by your company acting as my/our agent with JSCC as clearing margin concerning my/our unsettled transactions relating to my/our positions and shall be kept by JSCC. Notwithstanding the foregoing, I/we shall not object, for four (4) days (excluding holidays prescribed by the Financial Instruments Exchange) counted from the day of my/our submission of the margin to your company, keeping the margin as clearing margin and then depositing the equivalent amount of money or securities owned by your company with JSCC in lieu of my/our margin.

2. Notwithstanding the provision of the preceding paragraph, I/we shall not object, in the case where I/we agree separately in writing, to all or part of the margin submitted or deposited by me/us being deposited as replacement deposit with the equivalent amount of money or securities by the methods mentioned in any of the following items.

- (1) A method where, your company keeping the margin deposited by me/us as brokerage margin and depositing the equivalent amount of money or securities owned by your company with JSCC in lieu of my/our margin.
- (2) A method where, in the case where your company is a non-clearing participant, your company keeping all or part of the margin deposited by me/us as brokerage margin and depositing the equivalent amount of money or securities owned by your company with your company's designated clearing participant as margin of the non-clearing participant and having the equivalent amount of money or securities owned by your company's designated clearing participant deposited with JSCC as clearing margin in lieu of your company's margin deposited with the designated clearing participant.

**Article 4. (Agent)**

I/we shall deposit my/our clearing margin with JSCC and receive the return of the same through your company (in the case where your company is a non-clearing participant, your company and your company's designated clearing participant) acting as my/our agent.

(Reference Translation)

- (1) 私は、前項に定める代理人の解任をしないこと。
  - (2) 貴 に対し、第 17 条第 1 項第 1 号又は第 3 号の事由により同条第 1 項に定める支払不能による売買停止等が行われた場合は、前項に定める貴の代理権は消滅すること。
  - (3) 貴 が非清算参加者である場合において、貴 に対し、第 17 条第 1 項第 2 号又は第 4 号の事由により同条第 1 項に定める支払不能による売買停止等が行われたときは、前項に定める貴 の指定清算参加者の代理権は消滅すること。
- 3 私の取引証拠金の預託及びその返戻については、貴 (貴 が非清算参加者の場合には、貴 及び貴 の指定清算参加者) 以外の者を代理人としないこと。

(取引証拠金及び委託証拠金の返還請求権)

第 5 条 次の各号に掲げる取引証拠金及び委託証拠金に対する返還請求権は、私が貴 に対して負担する先物・オプション取引に係る債務のうち未履行部分に相当する額 (以下「未履行債務額」という。) を控除した額に相当する部分について、私が有すること。

- (1) 私が差し入れた取引証拠金が直接預託された場合  
貴 の直接預託分の取引証拠金 (清算参加者委託分の取引証拠金 (直接預託分) 又は非清算参加者委託分の取引証拠金 (直接預託分) をいう。以下同じ。) のうち、私が貴 (貴 が非清算参加者の場合には、貴 及び貴 の指定清算参加者) を代理人としてクリアリング機構に預託したのと同額の金銭又は私が貴 (貴 が非清算参加者の場合には、貴 及び貴 の指定清算参加者) を代理人としてクリアリング機構に預託した代用有価証券
- (2) 私が委託証拠金を預託し、取引証拠金が差換預託された場合 (第 3 条第 1 項ただし書に規定する差換預託が行われた場合を含む。)  
私が預託した委託証拠金 (同条第 1 項ただし書に規定する差換預託が行われた場合における私が貴 に差し入れた取引証拠金を含む。以下この号において同じ。) 及び次の a 又は b に掲げるもの  
a 貴 の差換預託分の取引証拠金 (清算参加者委託分の取引証拠金 (差換預託分) 又は非清算参加者委託分の取引証拠金 (差換預託分) をいう。

2. The agency as set forth in the preceding paragraph shall be subject to the following conditions:

- (1) I/we shall not release the agent as set forth in the preceding paragraph.
  - (2) In the event of the suspension of your company's transactions and others due to insolvency as set forth in Article 17, Paragraph 1 for the reason as stated in Article 17, Paragraph 1, Item 1 or Item 3, the agency of your company as set forth in the preceding paragraph shall lapse.
  - (3) In the case where you are a non-clearing participant, in the event of the suspension of your company's transactions and others due to insolvency as set forth in Article 17, Paragraph 1, for the reason as stated in Item 2 or Item 4 of the same paragraph, the agency of your company's designated clearing participant as set forth in the preceding paragraph shall lapse.
3. I/we shall not appoint a party other than your company (in the case where your company is a non-clearing participant, your company and your company's designated clearing participant) as my/our agent for the deposit and return of my/our clearing margin.

**Article 5. (Claims for Return of Clearing Margin and Brokerage Margin)**

I/we shall be able to claim the return of the following money or securities deposited as clearing margin and brokerage margin, after deducting the amount equivalent to my/our obligations to your company relating to Futures/Options Trading that have not been performed (hereinafter referred to as the "Unperformed Obligations").

- (1) If the clearing margin submitted by me/us is directly deposited  
In the clearing margin for direct deposit of your company (hereinafter referred to as clearing margin for clearing participant deposit [direct deposit] or clearing margin for non-clearing participant deposit [direct deposit], same shall apply hereafter) the money equivalent to the amount deposited by me/us with JSCC through your company (in the case where your company is a non-clearing participant, your company and your company's designated clearing participant) acting as my/our agent or the securities deposited by me/us in lieu of money with JSCC through your company (in the case where your company is a non-clearing participant, your company and your company's designated clearing participant) acting as my/our agent.
- (2) If I/we deposit a brokerage margin and a clearing margin is deposited as a replacement deposit (including the case where the replacement

(Reference Translation)

以下同じ。)として金銭が預託されている場合は、私が預託した委託証拠金に相当する額の金銭

- b 貴 の差換預託分の取引証拠金として代用有価証券が預託されている場合は、当該代用有価証券のうち、私が預託した委託証拠金に相当する額の有価証券
- 2 前項の規定により、私が有する取引証拠金に対する返還請求権は、クリアリング機構に対して私が直接行使することができず、私の代理人である貴 (貴 が非清算参加者の場合には、貴 及び貴 の指定清算参加者) を通じてのみ行使できること。
  - 3 貴 が清算参加者である場合においては、第1項に規定する私の未履行債務額 (貴 がクリアリング機構に対して支払い又は引き渡すべき私の委託に基づく先物・オプション取引に係る債務のうち未履行部分に相当する額を控除する。) に相当する部分の取引証拠金に対する返還請求権は、貴 が有すること。
  - 4 貴 が非清算参加者である場合においては、第1項に規定する私の未履行債務額に相当する部分の取引証拠金に対する返還請求権は、貴 が貴 の指定清算参加者に対して支払い又は引き渡すべき私の委託に基づく先物・オプション取引に係る債務のうち未履行部分に相当する額を控除した部分について貴 が有し、当該未履行部分について貴 の指定清算参加者が有すること。

deposit set forth in the proviso to Article 3, Paragraph 1, has been made):

The brokerage margin deposited by me/us (including the clearing margin submitted to your company in the case where the replacement deposit set forth in the proviso to Article 3, Paragraph 1, has been made; the same shall apply in this item) and:

- a. In the case where your company has deposited money as the clearing margin (hereinafter referred to as clearing margin for clearing participant deposit [replacement deposit] or clearing margin for non-clearing participant deposit [replacement deposit], same shall apply hereafter) for the replacement deposit, the money equivalent to the amount of the brokerage margin deposited by me/us; or
  - b. In the case where your company has deposited securities in lieu of money as the clearing margin for the replacement deposit, the securities equivalent to the amount of brokerage margin deposited by me/us in such securities in lieu of money.
2. The claim owned by me/us against JSCC for return of clearing margin in accordance with the preceding paragraph may not be exercised directly by me/us, but may only be exercised through your company (in the case where your company is a non-clearing participant, your company and your company's designated clearing participant) acting as my/our agent.
  3. In the case where your company is a clearing participant, your company shall be able to claim the return of the clearing margin whose amount is equivalent to my Unperformed Obligations as set forth in Paragraph 1 (after deducting the amount equivalent to the unperformed part of your company's obligations relating to Futures/Options Trading based on my order that should be paid or delivered by your company to JSCC).
  4. In the case where your company is a non-clearing participant, your company's designated clearing participant shall be able to claim the return of the clearing margin whose amount is equivalent to my Unperformed Obligations as set forth in paragraph 1 after deducting the amount equivalent to unperformed part of your company's obligations relating to Futures/Options Trading based on my order that should be paid or delivered by your company to your company's designated clearing participant which shall be obtained by your company.

(差換預託分の取引証拠金に関する返還請求権)

Article 6. (Claims for Return of Clearing Margin for Replacement

第6条 私が委託証拠金を預託し、取引証拠金が差換預託された場合（第3条第1項ただし書に規定する差換預託が行われた場合を含む。）は、次の各号に異議のないこと。

- (1) 私が取引証拠金の全部又は一部の返還請求権を行使した場合には、私が預託した委託証拠金（第3条第1項ただし書に規定する差換預託が行われた場合における私が貴 に差し入れた取引証拠金を含む。次号において同じ。）が返還されること。
- (2) 第3条第2項に規定する差換預託が行われた場合（同条第1項ただし書に規定する差換預託が行われた場合を含む。）において、私が委託証拠金の全部又は一部の返還を受けたときは、当該返還を受けた委託証拠金に相当する額の限度で、私の有する取引証拠金の返還請求権が貴 に移転すること。

#### （証拠金の代用有価証券の範囲）

第7条 証拠金の差入れ又は預託を有価証券をもって代用する場合については、貴 は、金融商品取引所及びクリアリング機構の規則又は規則に基づく措置により定める範囲のうち貴 が応じられる範囲において有価証券を受け入れることに異議のないこと。

- 2 前項の場合における有価証券の代用価格の計算に係る時価（金融商品取引所及びクリアリング機構の規則に基づき決定される時価をいう。）に乗すべき率については、金融商品取引所及びクリアリング機構の規則又は規則に基づく措置により定める率を超えない率として貴 が設定する率とすることに異議のないこと。

#### （取引の取消し）

第7条の2 過誤のある注文により先物・オプション取引が成立した場合において、金融商品取引所がその規則に基づき、先物・オプション取引の取消しを行ったときは、その措置に従うこと。

- 2 天災地変その他のやむを得ない理由により金融商品取引所のシステム上の取引記録が消失した場合において、当該金融商品取引所が先物・オプション取引の取消しを行ったときは、その措置に従うこと。

#### Deposit)

If I/we deposit a brokerage margin and the clearing margin is deposited as a replacement deposit (including the case where the replacement deposit set forth in the proviso to Article 3, Paragraph 1, has been made), I/we shall not object to the following items:

- (1) In the case where I/we exercise the claim for return of all or part of the clearing margin, the brokerage margin deposited by me/us (including the clearing margin submitted to your company in the case where the replacement deposit set forth in the proviso to Article 3, Paragraph 1, has been made; the same shall apply in the following item) shall be returned to me/us; and
- (2) In the case where the replacement deposit set forth in Article 3, Paragraph 2, has been made (including replacement deposit set forth in the proviso to Article 3, Paragraph 1), if I/we receive the return of all or part of the brokerage margin, the claim owned by me/us for return of the clearing margin shall be transferred to your company within the amount of such return.

#### Article 7. (Scope of Securities Deposited in Lieu of Margin)

In the case where securities are submitted or deposited as margin in lieu of money, I/we shall not object to your company receiving such securities as long as acceptable to your company within the scope specified by the rules and disposition based on such rules of the Financial Instruments Exchange and JSCC.

2. With respect to the ratios by which the market value is multiplied pertaining to calculation of substitute value of the securities in the preceding paragraph, I/we shall not object to the ratios set by you as those which do not exceed the ratios specified by the rules and disposition based on such rules of the Financial Instruments Exchange and JSCC.

#### Article 7-2. (Cancellation of Transactions)

In the event that Futures/Options Trading by an erroneous order is carried out, and the Financial Instruments Exchange cancels the trading pursuant to its rules and regulations, I/we shall comply with such actions.

2. In the event that trading records on the Financial Instruments Exchange's systems are lost due to an unavoidable reason such as act of

(Reference Translation)

- 3 私が貴 に委託した先物・オプション取引の取消しが行われた場合には、当該取り消された取引に係る私の貴 に対する権利及び義務は初めから発生しなかったものとされることに異議のないこと。
- 4 私は、金融商品取引所が先物・オプション取引を取り消したことにより損害を被った場合においても、過誤のある注文を発注した取引参加者に対して、当該発注に際して故意又は重過失が認められる場合を除き、その損害の賠償を請求しないこと。
- 5 私は、金融商品取引所が先物・オプション取引を取り消したことにより損害を被った場合においても、当該金融商品取引所に対して、当該取消しに際して故意又は重過失が認められる場合を除き、その損害の賠償を請求しないこと。

(権利行使の割当ての処理等)

第8条 法第2条 21 項第3号に掲げる取引について、クリアリング機構が定める方法により、貴 の顧客の委託に基づく建玉に対し権利行使の割当てが行われた場合において、貴 が貴 の定める方法により割当てを行うことに異議のないこと。

- 2 オプション取引(次項に規定するオプション取引を除く。)について、私が権利行使日において次の各号に定める場合に該当する銘柄について権利行使を行わない旨を所定の時限までに貴 に指示しなかったときは、当該銘柄を上場する金融商品取引所が別に定めた場合を除き、当該銘柄について権利行使の指示を行ったものとみなされることに異議のないこと。
  - (1) プットオプション(権利行使により当該権利行使をした者が売主としての地位を取得するものをいう。以下同じ。)については、権利行使価格がオプション清算値段、オプション清算指数の数値又はオプション清算数値を上回っている場合
  - (2) コールオプション(権利行使により当該権利行使をした者が買主としての地位を取得するものをいう。以下同じ。)については、権利行使価格がオプション清算値段、オプション清算指数の数値又はオプション清算数値を下回っている場合
- 3 取引開始の日から取引最終日の終了する日までを権利行使期間とするオプション取引について、私が権利行使期間満了の日において次の各号に定める場合に該当する銘柄について権利行使を行わない旨を所定の時限までに貴 に指示しなかったときは、当該銘柄を上場する金融商品取引所が別に定めた場合を除き、当該銘柄について権利行使の指示を行ったものとみなされるこ

providence, if the Financial Instruments Exchange cancels the Futures/Options Trading, I/we shall comply with such actions.

3. In the event that Futures/Options Trading I entrusted to your company is canceled, I/we shall not object to my/our rights and obligations to your company related to the cancelled trade being considered not to have existed from the beginning.
4. Even if I/we sustain any loss due to the cancellation of Futures/Options Trading by the Financial Instruments Exchange, I/we shall not make any claim for damages against a trading participant that has placed an erroneous order, unless such loss has been caused by the trading participant's willful intention or gross negligence.
5. Even if I/we sustain any loss due to the cancellation of Futures/Options Trading by the Financial Instruments Exchange, I/we shall not make any claim for damages against the Financial Instruments Exchange, unless such loss has been caused by the Financial Instruments Exchange's willful intention or gross negligence.

**Article 8. (Procedures in the Case of Assignment of Exercise of Options)**

When an exercise of options in the trades set forth in Article 2, Paragraph 21, Item 3 of the Act is assigned to the positions based on the order of your company's customers in the manner prescribed by JSCC, I/we shall not object to your company's assigning the same in the manner prescribed by your company.

2. In the event that, in connection with Options Trading (excluding Options Trading prescribed in the next paragraph), I/We fail to notify your company by the prescribed time on the exercise date to the effect that I/We will not exercise options concerning the issues falling under any of the following items, except cases separately prescribed by the Financial Instruments Exchange which lists options concerning the issues, I/We shall not object if it is deemed that I/We have given an instruction to exercise the options concerning such issues:

- (1) Put option (meaning an option in which a party will become a seller due to the exercise of the option; the same shall apply hereinafter); when the exercise price exceeds the clearing price of the option, the numerical value of the clearing index of the option, or the numerical value of the option; or
- (2) Call option (meaning an option in which a party will become a buyer due to the exercise of the option; the same shall apply hereinafter); when the exercise price is less than the clearing price of the option,

(Reference Translation)

とに異議のないこと。

- (1) プットオプションについては、権利行使価格が権利行使期間満了の日に終了する取引日における権利行使対象先物限月取引の清算値段を上回っている場合
  - (2) コールオプションについては、権利行使価格が権利行使期間満了の日に終了する取引日における権利行使対象先物限月取引の清算値段を下回っている場合
- 4 前項に規定するオプション取引について、私が権利行使を委託した場合又は権利行使の割当てを受けた場合において、私が当該権利行使又は当該権利行使の割当てに係る先物取引の限月取引ごとに新規の売付け若しくは新規の買付け又は転売若しくは買戻しの区別及びその数量を所定の時限までに貴に指示しなかったときは、当該指示をしなかった数量について新規の売付け又は新規の買付けの指示を行ったものとみなされることに異議のないこと。

(決済条件の変更)

第9条 金融商品取引所又はクリアリング機構が、天災地変、経済事情の激変、品不足その他やむを得ない理由に基づいて、先物・オプション取引に係る決済物件、権利行使期間、権利行使日、受渡決済期日又は最終決済期日の変更等の決済条件の変更を行った場合には、その措置に従うこと。

(経過利子の取扱い及び最終清算指数等の変更等)

第10条 クリアリング機構が、先物取引の受渡決済において、非課税扱いの申

the numerical value of the clearing index of the option, or the numerical value of the option.

3. In the event that, in connection with Options Trading whose options exercise period starting from the first trading day to the last trading day, I/we fail to notify your company by the prescribed time on the expiration date of the exercise period to the effect that I/we will not exercise the options concerning the issues falling under any of the following items, except cases separately prescribed by the Financial Instruments Exchange which lists such options concerning such issues, I/we shall not object if it is deemed that I/we have given an instruction to exercise the options concerning such issues:

- (1) Put option; when the exercise price exceeds the clearing price of the contract month of Futures eligible for exercise as of the trading day which falls on the last day of the exercise period; and
- (2) Call option; when the exercise price is less than the clearing price of the contract month of Futures eligible for exercise as of the trading day which falls on the last day of the of the exercise period.

4. In Options Trading as provided in the preceding paragraph, in cases (i) I/we have exercised the options or (ii) the exercise of the options has been assigned to me/us, and if I/we have not made instructions to your company by the prescribed time on the number of new sales, new purchases, resales or repurchases, respectively, of each underlying Government Bond Futures with the relevant contract month related to such exercise or such assignment of the options, I/we shall not object to your company acting as if I/we had instructed your company to carry out new sales or new purchases for the relevant number of the relevant contracts.

**Article 9. (Changes in the Conditions of Settlement)**

In the event that the Financial Instruments Exchange or JSCC makes any changes in the conditions of settlement, such as deliverable assets, exercise period of the options, exercise date of the options, delivery date or final settlement date, due to a natural disaster, a drastic change in overall economic conditions, a shortage in deliverable assets or other unavoidable reasons, I/we shall comply with such changes.

**Article 10. (Handling of Accrued Interest, Changes to Final Clearing Index, etc.)**

(Reference Translation)

告に係る経過利子の取扱いについて課税扱いの指定を行った場合には、その措置に従うこと。

- 2 指数先物取引における最終決済期日前に特別清算指数又は特別清算数値に誤りがあると認められた場合において、金融商品取引所が当該金融商品取引所の規則に基づき、その変更を行ったときは、その措置に従うこと。
- 3 指数オプション取引における権利行使に係る決済の日の前日までに特別清算指数又は特別清算数値に誤りがあると認められた場合において、金融商品取引所が当該金融商品取引所の規則に基づき、オプション清算指数又はオプション清算数値の変更を行ったときは、その措置に従うこと。
- 4 私が、指数先物取引又は指数オプション取引において、指数の算出若しくは配信の不能、遅延若しくは誤り又は最終清算指数、最終清算数値、オプション清算指数若しくはオプション清算数値の変更により損害を被った場合においても、貴、金融商品取引所（指数の対象である有価証券を上場する金融商品取引所を含む。以下この項において同じ。）及び指数の算出者（当該算出者から指数の算出に関して業務委託を受けた者を含む。）に対してその損害の賠償を請求しないこと。ただし、貴又は金融商品取引所に故意又は重過失が認められる場合にあっては、当該故意又は重過失が認められる者に対する請求はこの限りではない。
- 5 有価証券に係るオプション取引の処理について、次の各号に掲げる場合には、当該オプション取引が行われた金融商品取引所の定める方法により行われることに異議のないこと。
  - (1) 当該オプション取引の対象である有価証券が、いずれの国内の金融商品取引所においても上場されなくなる場合
  - (2) 当該オプション取引の対象である有価証券が、いずれかの国内の金融商品取引所において売買を停止された場合
  - (3) 当該オプション取引の対象である有価証券の発行者が会社分割を行った場合
  - (4) 当該オプション取引の取引状況等を勘案して当該取引に係るオプションの上場廃止を行う場合

In the event that JSCC designates a position with a report of non-taxable treatment of accrued interest with respect to the settlement of Futures Trading by delivery as a taxable position, I/we shall comply with such designation.

2. In the event that the Financial Instruments Exchange, prior to the final settlement date for Index Futures Trading, finds any error in the special clearing index or the special clearing numerical value and changes such index or value pursuant to its rules, I/we shall comply with such a change.

3. In the event that any error is deemed to exist in the special clearing index or the special clearing numerical value prior to the settlement date pertaining to the exercise of an option in Index Options Trading, the Financial Instruments Exchange has changed the special clearing index or the special clearing numerical value pursuant to its rules, I/we shall comply with such a change.

4. Even if I/we sustain any loss in Index Futures Trading or Index Options Trading due to an inability, delay, or error in computing or distributing index, or a change in the final clearing index, the final clearing numerical value or option clearing index, I/we shall not make any claim for damages against your company, the Financial Instruments Exchange (including a financial instruments exchange(s) which lists securities that are components of the index ; the same shall apply in this paragraph) or the person who has calculated the index (including the person sub-contracted to calculate the index); provided, however, that in cases where willful intention or gross negligence is deemed to exist at your company or the Financial Instruments Exchange, this shall not apply to claim for damages against your company or such exchange.

5. With respect to treatment of options trading pertaining to securities, in cases enumerated in each of the following items, I/we shall not object to such treatment in accordance with manners prescribed by the Financial Instruments Exchange on which such trading was conducted:

- (1) Where securities which are objects of such options will be delisted from any of the domestic financial instruments exchanges;
- (2) Where trading in securities which are objects of such options was halted in any of the domestic financial instruments exchanges
- (3) Where the issuer of securities which are objects of such options conducted a company split; or
- (4) Where the Exchange delist the options trading in consideration of the state of such trading.

(期限の利益の喪失)

第11条 私について次の各号の事由のいずれかが生じた場合には、貴 から通知、催告等がなくても貴 に対する先物・オプション取引に係る債務について当然期限の利益を失い、直ちに債務を弁済すること。

- (1) 支払いの停止又は破産手続開始、再生手続開始、会社更生手続開始若しくは特別清算開始の申立てがあったとき。
  - (2) 手形交換所又は電子記録債権法（平成19年法律第102号）第2条第2項に規定する電子債権記録機関の取引停止処分を受けたとき。
  - (3) 私の貴 に対する先物・オプション取引に係る債権又はその他一切の債権のいずれかについて仮差押、保全差押又は差押の命令、通知が発送されたとき。
  - (4) 私の貴 に対する先物・オプション取引に係る債務について差し入れている担保の目的物について差押又は競売手続の開始があったとき。
  - (5) 外国の法令に基づく前各号のいずれかに相当又は類する事由に該当したとき。
  - (6) 住所変更の届出を怠るなど私の責めに帰すべき事由によって、貴 に私の所在が不明となったとき。
  - (7) 私がクロスマージン利用者である場合で、私がクリアリング機構の金利スワップ取引業務方法書の定めにより、クリアリング機構から破綻等の認定を受けたとき。
  - (8) 私がクロスマージン利用者である場合で、クリアリング機構が定める金利スワップ取引業務方法書に従い締結した金利スワップ清算受託契約書の定めるところにより、期限前終了日において当該金利スワップ清算受託契約書に基づく清算委託取引が終了したとき。
- 2 次の各号の事由のいずれかが生じた場合には、貴 の請求によって貴 に対する先物・オプション取引に係る債務の期限の利益を失い、直ちに債務を弁済すること。
- (1) 私の貴 に対する先物・オプション取引に係る債務又はその他一切の債権のいずれかについて一部でも履行を遅滞したとき。
  - (2) 私の貴 に対する債務（先物・オプション取引に係る債務を除く。）について差し入れている担保の目的物について差押又は競売手続の開始（外国の法令に基づくこれらのいずれかに相当又は類する事由に該当した場合を含む。）があったとき。
  - (3) 私が貴 との本約諾又はその他一切の取引約定のいずれかに違反したとき。
  - (4) 前3号のほか債権保全を必要とする相当の事由が生じたとき。

**Article 11. (Acceleration of Performance of Obligations)**

Upon the occurrence of any of the following events with regards to me/us, the obligations which I/we owe your company in relation to Futures/Options Trading shall automatically become due and payable without any notification from, demand by or any other similar action on the part of your company, and I/we shall perform such obligations immediately:

- (1) When I/we suspend payment, or a petition for bankruptcy procedure, rehabilitation procedure, corporate reorganization procedure or special liquidation is filed against me/us;
  - (2) When the clearinghouse or the electronic monetary claim recording institution set forth in Article 2, Paragraph 2 of Electronically Recorded Monetary Claims Act (Act No. 102 of 2007) takes any procedure to suspend my/our bank transactions;
  - (3) When an order or a notice of provisional attachment, preservative attachment or attachment on any part of the claims relating to Futures/Options Trading or other claims of mine/ours against your company is sent;
  - (4) When a procedure for attachment or auction of a collateral for the obligations which I/we owe your company relating to the Futures/Options Trading is begun;
  - (5) When any event under foreign laws and regulations equivalent or similar to any of the preceding items occurs to me/us;
  - (6) When my/our whereabouts become unknown to your company due to reasons attributable to me/us, such as neglecting to notify a change of my/our address;
  - (7) In the case where I/we am/are a Cross Margining User, when JSCC declares a Default by me/us in the manner prescribed in the Interest Rate Swap Clearing Business Rules; or
  - (8) In the case where I/we am/are a Cross Margining User, when the Subject Clearing Brokerage Contracts are terminated on the Early Termination Date in the manner prescribed in the Interest Rate Swap Clearing Brokerage Agreement entered into pursuant to the Interest Rate Swap Clearing Business Rules of JSCC.
2. Upon the occurrence of any of the following events to me/us and upon your company's request, all obligations which I/we owe your company in relation to Futures/Options Trading shall immediately become due and payable, and I/we shall perform such obligations immediately:
- (1) When I/we delay the performance of all or part of the obligations which I/we owe your company in relation to Futures/Options Trading

(Reference Translation)

- or other obligations which I owe to your company;
- (2) When procedures for attachment or auction of a collateral (including procedures under foreign laws and regulations which are equivalent or similar thereto) for the obligations which I/we owe your company (except for the obligations relating to the Futures/Options Trading) are begun;
  - (3) When I/we fail to comply with any of the provisions in this agreement or other agreements on any transactions with your company; or
  - (4) Other than the events set forth in the foregoing items, when there arises a reasonable and probable cause which necessitates the preservation of your company's claims.

(クロスマージン対象国債先物清算約定に係る権利義務関係の消滅)

第 11 条の 2 私がクロスマージン利用者である場合において、私のクロスマージン対象国債先物清算約定に係る国債証券先物取引の委託に係る権利義務関係は、クリアリング機構の業務方法書が定める場合に当該業務方法書の定める範囲で、将来に向かって消滅することに異議のないこと。

(期限の利益を喪失した場合等における先物・オプション取引の転売又は買戻し等)

- 第 12 条 私が第 11 条第 1 項各号のいずれかに該当したときは、私が貴 に設定した先物・オプション取引口座を通じて処理されるすべての先物・オプション取引(クロスマージン対象国債先物清算約定に係るものを除く。)につき、それを決済するために必要な転売若しくは買戻し、売付契約若しくは買付契約、最終決済、権利行使又は権利行使により成立する有価証券の売付け若しくは買付けに係る契約(これらの委託を含む。以下「転売又は買戻し等」という。)を、私の計算において貴 が任意に行うことに異議のないこと。
- 2 私が第 11 条第 2 項第 1 号に掲げる債務のうち、先物・オプション取引に係る債務について一部でも履行を遅滞したときは、当該先物・オプション取引が行われた金融商品取引所の規則により、当該遅滞に係る先物・オプション取引を決済するために必要な転売又は買戻し等を、私の計算において貴 が任意に行うことに異議のないこと。
  - 3 私が第 11 条第 2 項各号のいずれかに該当したときは、貴 の請求により、貴 の指定する日時までに、私が貴 に設定した先物・オプション取引口座を通じて処理されるすべての先物・オプション取引を決済するために必要な

#### Article 11-2. (Extinguishment of Rights and Obligations concerning Cross-Margined JGB Futures Cleared Contracts)

I/we shall not object, in the case where I/we am/are a Cross Margining User, to the extinguishment into the future within the scope of the case prescribed in the Business Rules of JSCC my/our rights and obligations concerning trading of JGB Futures through your company concerning Cross-Margined JGB Futures Cleared Contracts.

#### Article 12. (Resale, Repurchase, etc. in Futures/Options Trading in Case of Acceleration, etc.)

In the case that any of the events set forth in the items described in Paragraph 1 of Article 11 occurs to me/us, I/we shall not object if your company, at its discretion and for and on my/our account, carries out any resale, repurchase, enters into a sales agreement or purchase agreement, carries out final settlement, exercise of options or enters into any agreement concerning the purchase or sale of securities which shall be carried out by the exercise of an option relating to individual securities (including the entrustment of these actions; hereinafter referred to as the "Resale, Repurchase, etc."), which may be necessary for the settlement of any Futures/Options Trading (except for Cross-Margined JGB Futures Cleared Contracts and relevant matters) made by me/us through the Account with your company.

2. In the event that relating to Futures/Options Trading I/we delay the performance of any of my/our obligations set forth in Paragraph 2, Item (1) of Article 11, I/we shall not object if your company, at its discretion and for and on my/our account, carries out any resale, repurchase, etc.

(Reference Translation)

転売又は買戻し等を、貴 に委託して行うこと（前項の規定により貴 が転売又は買戻し等を行う場合を除く。）。

- 4 前項の日時までに、私が転売又は買戻し等の委託を行わないときは、貴 が任意に、私の計算においてそれを決済するために必要な転売又は買戻し等を行うことに異議のないこと。
- 5 前各項の転売又は買戻し等を行った結果、損失が生じた場合には、貴 に対して、その額に相当する金銭を直ちに支払うこと。
- 6 第1項の規定にかかわらず、私がクロスマージン利用者である場合で、クリアリング機構の業務方法書の定めにより私のクロスマージン対象国債先物清算約定に係る国債証券先物取引の委託に係る権利義務関係が消滅するときには、当該清算約定に係る国債証券先物取引の整理について、クリアリング機構の業務方法書に定めるところに従うこと。

(貴 に増担保等措置が実施された場合の措置)

第12条の2 貴 が、クリアリング機構から増担保等措置（クリアリング機構の業務方法書第29条の2に規定する措置をいう。以下同じ。）を受けた場合（貴 が非清算参加者の場合には、クリアリング機構の業務方法書第29条の2第2項の規定による措置を貴 の指定清算参加者から受けた場合）であって、私の委託に基づく未決済約定が当該措置の事由と密接な関係を有しているときは、貴 が当該措置に従うために必要な範囲内で私に対して次の各号に掲げる措置を行うことに異議のないこと。

- (1) 証拠金の額の引き上げ
- (2) 証拠金を有価証券をもって代用する場合における貴 が指定する銘柄の限定
- (3) 証拠金を有価証券をもって代用する場合の代用価格の計算における時

which may be necessary for the settlement of any Futures/Options Trading relating to such delay in accordance with the rules of the Financial Instruments Exchange on which the Futures/Options Trading was conducted.

3. In the case that any of the events set forth in the items described in Paragraph 2 of Article 11 occurs to me/us, I/we shall, upon your company's request and by the date and time designated by your company, carries out any Resale, Repurchase, Etc. which may be necessary for the settlement of any Futures/Options Trading through my/our Account with your company (except for the case where your company carries out the Resale, Repurchase, etc. in accordance with the provision of the preceding paragraph).

4. In the event that I/we fail to carry out any Resale, Repurchase, etc. through my/our Account by the date and time set forth in the preceding paragraph, I/we shall not object if your company, at its discretion and for and on my/our account, carries out any Resale, Repurchase, etc. which may be necessary for the settlement of the Futures/Options Trading.

5. In the event that any loss is incurred due to the Resale, Repurchase, etc. set forth in the preceding paragraphs in this Article, I/we shall immediately pay your company the amount equivalent to such a loss.

6. Notwithstanding the provision of Paragraph 1 hereof, in the case where I/we am/are a Cross Margining User, when my/our rights and obligations concerning trading of JGB Futures through your company concerning a Cross-Margined JGB Futures Cleared Contract have been extinguished into the future in the manner prescribed in the Business Rules of JSCC, I/we shall abide by the provisions prescribed in the Business Rules of JSCC with regard to arrangements concerning Cross-Margined JGB Futures Cleared Contracts.

**Article 12-2. (In the event that measures for increasing collateral, etc. is implemented for your company)**

In the event that JSCC has taken actions to increase collateral, etc. (meaning actions set forth in JSCC Business Rules Article 29-2; the same shall apply hereinafter) against your company (in the event that your company is a non-clearing participant, and your company's designated clearing participant has taken actions as prescribed in JSCC Business Rules and Regulations Article 29-2, Paragraph 2 against your company) and the unsettled transactions based on my/our entrustment have a close relation to such actions, I/we shall not object to measures set forth in the following items as far as those are necessary.

- (1) Increase in the required margin amount

価に乗すべき率の引下げ

(貴 にポジション保有状況の改善指示が行われた場合における建玉の移管)

第12条の3 私に正当な理由なく前条の措置に従わないことによって、貴 がクリアリング機構から業務方法書第29条の3の規定に基づきポジション保有状況の改善指示(以下「改善指示」という。)を受けた場合(貴 が非清算参加者である場合には、貴 の指定清算参加者からクリアリング機構の業務方法書第45条の2第1項の規定に基づき要請を受けた場合)には、貴 が、私の委託に基づく未決済約定について、転売又は買戻し等又は貴 以外の取引参加者への引継ぎを要請することがあり得ることに異議がないこと。

2 前項の貴 からの要請があった場合において、私が貴 以外の取引参加者に当該未決済約定の引継ぎ(以下「建玉の移管」という。)を希望するときは、私が当該取引参加者に対して、建玉の移管について申し込み、その承諾を受けなければならないことに異議のないこと。

3 私が前項の貴 以外の取引参加者の承諾を受けた場合において、私はその旨を貴 に通知したときは、貴 は、建玉の移管について、クリアリング機構(貴 が非清算参加者である場合には、貴 の指定清算参加者)の承認を求めること。

4 前項のクリアリング機構(貴 が非清算参加者である場合には、貴 の指定清算参加者)の承認又は否認があった場合には、貴 は、その旨を私に連絡すること。

(貴 に改善指示が行われた場合における先物・オプション取引の転売又は買戻し等)

第12条の4 貴 が、私に対して、あらかじめ、合理的な猶予期間を定めて前条第1項の要請をしたにもかかわらず、私が正当な理由なく当該要請に応じなかった場合であって、貴 が、他の方法により当該改

(Reference Translation)

(2) In the case where securities are submitted or deposited as margin in lieu of money, limitation on securities acceptable by your company

(3) In the case where securities are submitted or deposited as margin in lieu of money, reduction in loan-to-value ratios in evaluation of those securities as collateral.

**Article 12-3. (Position Transfer in the event that Instruction to Improve Position Status is Issued to your Company)**

In the event that JSCC has issued the Instruction to improve position status (hereinafter referred to as the “improvement instruction”) to your company pursuant to the provision of Article 29-3 of the JSCC Rules and Regulations (or in the event that your company is a non-clearing participant and that your company’s designated clearing participant has made a request to your company pursuant to the provisions of Article 45-2, Paragraph 1 of the JSCC Business Rules and Regulations) due to my failure to comply with the measures set forth in the preceding Article without reasonable excuse, I/we shall not object to a possibility that your company will request me/us to resale or repurchase, etc., or transfer my/our position to the other participant.

2. In the event that I/we receive your request set forth in the preceding paragraph, and if I/we choose to transfer my/our position to participants other than your company (hereinafter referred to as the “Position Transfer”), I/we shall not object to being required to make an application with and obtain approval from the said participants.

3. In the event that I/we obtain the approval from the participants other than your company set forth in the preceding paragraph, and when I/we notify your company to that effect, your company asks for approval of JSCC (in the case where your company is a non-clearing participant, your company’s designated clearing participant).

4. In the event that your company received the approval set forth in the preceding paragraph from JSCC (in the case where your company is a non-clearing participant, your company’s designated clearing participant) or disapproval, your company notifies me/us to that effect.

**Article 12-4. (Resale, Repurchase, etc. in the event that Improvement Instruction is Issued to your company)**

In the event that your company made the request prescribed in Paragraph 1 of the preceding article with a reasonable grace period set in advance, however I/we have not responded to such request without due

## (Reference Translation)

善指示に適合するべく合理的な努力を行ってもなお当該改善指示に適合できないとき（貴 が非清算参加者である場合には、クリアリング機構の業務方法書第 45 条の 2 第 1 項の規定に基づく要請に適合するべく合理的な努力を行ってもなお当該要請に適合できないとき）は、私が貴 に設定した先物・オプション取引口座を通じて処理されるすべての先物・オプション取引につき、私の計算において、それを決済するために必要な転売又は買戻し等を合理的に必要と認められる範囲内で行うことに異議のないこと。

- 2 前項の転売又は買戻し等を行った結果、私が損害を被った場合であっても、貴 及びクリアリング機構（貴 が非清算参加者である場合には、貴 、貴 の指定清算参加者及びクリアリング機構）に対してその損害の賠償を請求しないこと。ただし、貴 、貴 の指定清算参加者及びクリアリング機構に故意又は重過失が認められる場合にあっては、当該故意又は重過失が認められる者に対する請求はこの限りではない。

### (取引証拠金等の処分)

第 13 条 私が先物・オプション取引に関し、貴 に対し負担する債務を所定の時限までに履行しないときは、通知、催告を行わず、かつ法律上の手続によらないで、次の各号に掲げるものを、私の計算において、その方法、時期、場所、価格等は貴 の任意で処分し、その取得金から諸費用を差し引いた残額を法定の順序にかかわらず債務の弁済に充当されても異議なく、また当該弁済充当を行った結果、残債務がある場合は直ちに弁済を行うこと。

- (1) 私が差し入れた代用有価証券が取引証拠金として直接預託された場合には、クリアリング機構に預託されている代用有価証券
- (2) 私が委託証拠金として預託した代用有価証券
- (3) その他金融商品取引に関し、貴 が占有し、又は社債、株式等の振替に関する法律（平成 13 年法律第 75 号）に基づく口座に記録している私の有価証券及びその他の動産

reasons, and I/we do not follow the improvement instructions despite your company's reasonable efforts other than what are prescribed in the preceding Article (or in the event that your company is a non-clearing participant, and cannot appropriately meet the request made pursuant to Article 45-2, Paragraph 1 of the JSCC Business Rules and Regulations despite your company's reasonable efforts to meet such request), I/we shall not object if your company will carry out any Resale, Repurchase, etc. on my/our account, as long as such Resale, Repurchase, etc. are deemed reasonably necessary for the settlement of any Futures/options Trading through my/our Account opened with your company.

2. Even if I/we sustain damages as a result of the Resale, Repurchase, etc. set forth in the preceding paragraph, I/we shall not claim compensation for such damages against your company and JSCC (in the case where your company is a non-clearing participant, your company, your designated clearing participant, and JSCC). Provided, however, that the same shall not apply to cases where such damages have been sustained by your company's, your designated clearing participant's, or JSCC's intention or gross negligence.

### Article 13. (Disposal of Clearing Margin, etc.)

In the event that I/we fail to perform by the prescribed date and time any of the obligations which I/we owe your company relating to any Futures/Options Trading, I/we shall not object to your company, at its discretion and for and on my/our account, disposing of the securities and other assets set forth in the following items, in such a manner, at such time and place, for such price and on such other terms as may be determined by your company, without any notification from, demand by your company, and without following the procedures under the laws, applies the proceeds (after deducting expenses) of such disposal to the payment of any of my/our obligations, regardless of the legal priority of such obligations; and in the event that any obligation remains unsatisfied after the abovementioned application of the proceeds, I/we agree to immediately satisfy the same:

- (1) In the case where the securities submitted in lieu of money by me/us is directly deposited with JSCC as clearing margin, the securities deposited in lieu of money with JSCC;
- (2) The securities deposited in lieu of money by me/us as brokerage margin; and
- (3) Other securities which are registered to my/our account based on the Act Concerning Book-entry Transfer of Corporate Bonds and other Securities (Act No. 75 of 2001) or other movable properties owned

(Reference Translation)

by me/us and in the possession of your company relating to any other financial instruments transaction.

(差引計算)

- 第14条 期限の到来、期限の利益の喪失その他の事由によって、貴 に対する債務を履行しなければならない場合には、その債務と私の貴 に対する先物・オプション取引に係る債権その他一切の債権とを、その債権の期限のいかににかかわらず、いつでも貴 は相殺することができること。
- 2 前項の相殺ができる場合には、貴 は事前の通知及び所定の手続きを省略し、私に代わり諸預け金の払戻しを受け、債務の弁済に充当することもできること。
- 3 前2項によって差引計算をする場合、債権債務の利息、損害金等の計算については、その期間を計算実行の日までとし、債権債務の利率については貴の定める利率によるものとし、先物・オプション取引に係る貴 に対する債務の遅延損害金の率については当該先物・オプション取引が行われた金融商品取引所の定める率によるものとし、貴 に対するその他の債務の遅延損害金の率については、貴 の定める率によるものとする。

(弁済等充当の順序)

- 第15条 債務の弁済又は前条の差引計算を行う場合、私の債務の全額を消滅させるのに足りないときは、貴 が適当と認める順序方法により充当することができること。

(遅延損害金の支払い)

- 第16条 私が先物・オプション取引に関し、貴 に対する債務の履行を怠ったときは、貴 の請求により、貴 に対し履行期日の翌日より履行の日まで、当該先物・オプション取引が行われた金融商品取引所の定める率による遅延損害金を支払うことに異議のないこと。

**Article 14. (Calculation in Case of Setoff)**

When I/we have to perform obligations to your company due to the expiration of the term, acceleration, or other reasons, your company may set off such obligation against your company's obligations to me/us, including those relating to Futures/Options Trading, regardless of the remaining term of such obligations.

2. If the setoff set forth in the preceding paragraph is available, your company may, on behalf of me/us, receive the return of the deposits and apply it to the performance of the obligations I/we owe your company, without giving me/us the prior notice and without following the prescribed procedures.

3. In the event that obligations are to be set off in accordance with the provisions of the preceding two paragraphs, in calculating the period for interest and overdue interest on the obligations, (i) the period shall be the period ending on the date of calculation, (ii) interest on the obligation shall be calculated by using the rate prescribed by your company, (iii) overdue interest of the obligations I/we owe your company relating to Futures/Options Trading shall be calculated by using the rate prescribed by the Financial Instruments Exchange on which the Futures/Options Trading was conducted, and (iv) overdue interest concerning other obligations I/we owe your company shall be calculated by using the rate prescribed by your company.

**Article 15. (Order of Appropriation in Payment)**

If payments made by me/us or setoffs set forth in the preceding Article made by your company are insufficient to discharge all of my/our obligations, your company may appropriate such payments or such setoffs to satisfy my/our obligations in such order as your company deems proper.

**Article 16. (Payment of Overdue Interest)**

In the event that I/we fail to perform any of the obligations I/we owe your company relating to Futures/Options Trading, I/we shall not object, upon request by your company, to pay your company overdue interest at the rate prescribed by the Financial Instruments Exchange on which the

(Reference Translation)

Futures/Options Trading was conducted for the period from the day following the due date to the date of actual performance.

(支払不能による売買停止等の場合の措置)

第 17 条 次の各号のいずれかの事由により、金融商品取引所の取引参加者規程の規定に基づき貴 の先物・オプション取引（有価証券等清算取次ぎによるものを除く。）又は有価証券等清算取次ぎの委託の停止（以下「支払不能による売買停止等」という。）が行われ、当該金融商品取引所が貴 の顧客の委託に基づく未決済約定（取引最終日までに転売又は買戻しを行わなかった未決済約定を除く。）について引継ぎ又は転売若しくは買戻し若しくは権利行使（これらの委託を含む。以下同じ。）を行わせることとした場合において、私が貴 以外の当該金融商品取引所が指定する取引参加者に当該未決済約定の引継ぎ（以下「支払不能による売買停止等時の建玉の移管」という。）を行おうとするときは、当該金融商品取引所の定めるところにより、私が当該取引参加者のうち一の者に当該支払不能による売買停止等時の建玉の移管について申し込み、当該金融商品取引所が定める日時までにその承諾を受けなければならないことに異議のないこと。

- (1) 貴 が支払不能となり又はそのおそれがあると認められたことその他特に必要があると認められたこと。
  - (2) 貴 が非清算参加者である場合において、貴 の指定清算参加者が支払不能となり又はそのおそれがあると認められたことその他特に必要があると認められたこと。
  - (3) 貴 が改善指示に違反したこと。
  - (4) 貴 の指定清算参加者が改善指示に違反したこと。
- 2 前項の支払不能による売買停止等時の建玉の移管を行う場合には、私が移管先の取引参加者（以下「移管先取引参加者」という。）に先物・オプション取引口座を設定しなければならないこと。
- 3 第 1 項の場合において、私が私の委託に基づく未決済約定の転売若しくは買戻し又は権利行使を希望するときは、同項に規定する金融商品取引所の定めるところにより、当該金融商品取引所が定める日時までに、貴 に対しその旨を指示しなければならないことに異議のないこと。
- 4 第 1 項の場合において、同項に規定する金融商品取引所が定める日時までに、私が第 1 項の承諾を受けておらず、かつ、前項の指示を行わなかったときは、私の委託に基づく未決済約定は、当該金融商品取引所の定めるところにより、私の計算において任意に転売若しくは買戻し又は権利行使が行われることに異議のないこと。
- 5 前各項の規定にかかわらず、私が、次の各号（第 1 項第 1 号の事由に該当していない場合は、第 2 号を除く。）のいずれかに該当した場合は、私の委託に基づく未決済約定は、第 1 項に規定する金融商品取引所の定めるところにより、私の計算において任意に転売若しくは買戻し又は権利行使が行われる

**Article 17. (Transfer of Positions in the Event of Suspension of Transactions and others due to Insolvency)**

In the event that your company is suspended from Futures/Options Trading (excluding those subject to brokerage of clearing of securities, etc.) or the entrustment by brokerage of clearing of securities, etc. (hereinafter referred to as "Suspension of Transactions and others due to Insolvency") in accordance with the Trading Participant Regulations of the Financial Instruments Exchange, due to any of the reasons set forth in the following items, and the Financial Instruments Exchange decides to have the unsettled positions relating to customers' positions (except for unsettled positions for which Resale, Repurchase, etc. was not carried out by the last day of trading) transferred, resold or repurchased, or to have options in connection with such positions exercised (including the entrustment of these actions; the same shall apply hereinafter); and when I/we wish to transfer my/our position from your company to one of the trading participants designated by the Financial Instruments Exchange (hereinafter referred to as the "Transfer of Positions in the Case of Trading Halt, etc. due to Insolvency"), I/we shall not object to being required to make a request to and obtain approval from such a trading participant with respect to the Transfer of Positions in the Case of Trading Halt, etc. due to Insolvency in accordance with the rules of the Financial Instruments Exchange and by the date and time fixed by the Financial Instruments Exchange.

- (1) In the event that your company becomes or is deemed likely to become insolvent, and in other events that are recognized to be especially necessary.
  - (2) In the case where your company is a non-clearing participant, in the event that your company's designated clearing participant becomes or is deemed likely to become insolvent, and in other events that are recognized to be especially necessary.
  - (3) In the event that your company fails to comply with the improvement instruction.
  - (4) In the event that your company's designated clearing participant fails to comply with Instruction to improve position status.
2. In the event that the Transfer of Positions in the Case of Trading Halt, etc. due to Insolvency set forth in the preceding paragraph is carried out, I/we shall not object to being required to establish the

ことに異議のないこと。

- (1) 私が支払不能による売買停止等の前に、第 11 条に定めるところにより期限の利益を失ったとき。
- (2) 私が貴の子会社・親会社であり、かつ、当該金融商品取引所により支払不能による売買停止等時の建玉の移管を行うことが適当でないと認められたとき。

#### (差換預託の場合の証拠金の取扱い)

第 18 条 貴 について支払不能による売買停止等が行われた場合において、私が委託証拠金を預託し、取引証拠金が差換預託されていたとき（第 3 条第 1 項ただし書に規定する差換預託が行われていたときを含む。）は、次の各号に掲げる取扱いが行われることに異議のないこと。

- (1) 代用有価証券がクリアリング機構に預託されていたときは、クリアリング機構が当該代用有価証券の全部又は一部を換金して、金銭により返還す

#### (Reference Translation)

Account with the trading participant to which my/our positions are transferred (hereinafter referred to as the "Transferee").

3. In the case of Paragraph 1 above, if I/we wish to resell or repurchase the unsettled positions or exercise options relating to my/our positions, I/we shall not object to being required to give instructions to that effect to your company in accordance with the provisions prescribed by the Financial Instruments Exchange as prescribed in said paragraph by the date and time fixed by the Financial Instruments Exchange.

4. In the case of Paragraph 1 above, if I/we do not obtain the approval set forth in Paragraph 1 and do not give the instructions as set forth in the preceding paragraph by the date and time fixed by the Financial Instruments Exchange as prescribed in said paragraph, I/we shall not object if, with respect to the unsettled positions relating to my/our positions, resale or repurchase is carried out or options are exercised at your company's discretion for and on my/our account in accordance with the provisions prescribed by the Financial Instruments Exchange.

5. Notwithstanding the provisions of the preceding paragraphs in this Article, in the case that any of the following events listed in the following item (excluding Item 2 in the event that it does not fall under the reason of Article 1, Item 1) occurs to me/us, I/we shall not object if, with respect to the unsettled positions relating to my/our positions, resale or repurchase is carried out or options are exercised at your company's discretion for and on my/our account in accordance with the provisions prescribed paragraph 1 by the Financial Instruments Exchange:

- (1) If the due date of the obligations is accelerated, in accordance with the provision of Article 11 hereof before the Suspension of Transactions and others due to Insolvency; or
- (2) If I/we am/are a subsidiary or parent company of your company and the Financial Instruments Exchange deems it inappropriate to carry out the Transfer of Positions in the Case of Trading Halt, etc. due to Insolvency.

#### Article 18. (Treatment of Deposited Margin in the Case of Replacement Deposit)

If your company has been ordered to suspend transactions or has received a similar injunction as a result of insolvency and, if I/we have deposited a brokerage margin and the clearing margin has been deposited as a replacement (including the case where the replacement deposit set forth in the proviso to Article 3, Paragraph 1, has been made),

(Reference Translation)

ることがあり得ること。この場合において、私とクリアリング機構との間に委任契約が成立していたものとされること。

(2) 第5条第1項第2号の規定にかかわらず、次のa又はbのいずれか小さい方の額につき、私の未履行債務額を控除した額に相当する部分について、私が取引証拠金の返還請求権を有すること。

a 私が預託した委託証拠金（第3条第1項ただし書に規定する差換預託が行われていた場合における私が貴に差し入れた取引証拠金を含む。以下この号において同じ。）に相当する額

b 貴がクリアリング機構に預託している差換預託分の取引証拠金（前号の規定によりクリアリング機構が換金した場合は、差換預託分の取引証拠金として預託している金銭及び当該換金に係る有価証券以外の有価証券並びに当該換金の後の金銭の額から当該換金に要した費用を差し引いた額の金銭）を、私を含む貴の各顧客が貴に預託した委託証拠金に相当する額に応じてあん分した額

2 前項の場合において、私の有する返還請求権は、クリアリング機構が同項第1号に規定する換金及び各顧客の返還請求権の額の計算につき要する相当の期間を経過するまではこれを行行使し得ず、またクリアリング機構が相当の注意をもってなした返還請求権の額の決定に従うものであること。

(建玉の移管に係る証拠金の取扱い)

第19条 第17条第1項の支払不能による売買停止等時の建玉の移管が行われた場合には、次の各号に掲げる取扱いが行われることに異議のないこと。

(1) 私が差し入れた取引証拠金が直接預託されていたときは、移管先取引参加者（移管先取引参加者が非清算参加者である場合には、当該移管先取引参加者及びその指定清算参加者）を代理人として取引証拠金を預託していたものとみなされること。

(2) 私が委託証拠金を預託し、取引証拠金が差換預託されていたとき（第3条第1項ただし書に規定する差換預託が行われていたときを含む。）は、前条第1項第2号の規定により私が返還請求権を有する額について、移管

I/we shall not object to the application of the following items:

(1) If the securities are deposited with JSCC, JSCC may liquidate all or part of such securities and return the proceeds. In that event, it shall be understood that a trust agreement has been concluded between me/us and JSCC;

(2) Notwithstanding the provision of Article 5, Paragraph 1, Item (2) hereof, I/we shall have a claim for return of the clearing margin for the portion equivalent to the amount less my Unperformed Obligations in the lesser amount of a. or b. which follows:

a. The amount of brokerage margin deposited by me/us (including the clearing margin submitted to your company in the case where the replacement deposit set forth in the proviso to Article 3, Paragraph 1, has been made; the same shall apply in this item); or

b. The amount obtained by apportioning the clearing margin deposited by your company with JSCC for the replacement deposit (in the event JSCC liquidates the margin according to the provisions of the preceding paragraph, the amount of money after deducting the expenses required for the liquidation from the sum of the money deposited as clearing margin for the replacement deposit, the securities other than those subject to the liquidation, and the proceeds of the liquidation) in proportion to the amount of brokerage margin deposited by the respective customers of your company (including me/us).

2. In the case of the preceding paragraph, I/we shall not exercise the claim for return until reasonable time passes for JSCC to liquidate the securities as set forth in Item (1) of the preceding paragraph and to calculate the amount of claim for return by each customer, and I/we shall agree to the amount of claim for return that JSCC decided with reasonable care.

**Article 19. (Handling of Deposited Margin Relating to Transfer of Positions)**

In the event that the Transfer of Positions in the Case of Trading Halt, etc. due to Insolvency set forth in Article 17, Paragraph 1 hereof is carried out, I/we shall not object to the application of the following items:

(1) If the clearing margin submitted by me/us is directly deposited, the amount equivalent to such margin shall be deemed to have been deposited through the Transferee (in the case where your company is a non-clearing participant; the Transferee and the designated clearing

先取引参加者（移管先取引参加者が非清算参加者である場合には、当該移管先取引参加者及びその指定清算参加者）を代理人として取引証拠金を預託していたものとみなされること。

- (3) 第5条第1項に定める取引証拠金返還請求権は、同条第2項の規定にかかわらず、代理人たる移管先取引参加者（移管先取引参加者が非清算参加者である場合には、当該移管先取引参加者及びその指定清算参加者）を通じてのみ行使できること。

**(差換預託の場合の特則)**

第20条 第17条第1項の支払不能による売買停止等時の建玉の移管が行われた場合において、私が委託証拠金を預託し、取引証拠金が差換預託されていたとき（第3条第1項ただし書に規定する差換預託が行われていたときを含む。）は、次の各号に掲げる取扱いが行われることに異議のないこと。

- (1) 私が貴 に預託した委託証拠金（第3条第1項ただし書に規定する差換預託が行われていた場合における私が貴 に差し入れた取引証拠金を含む。以下この条において同じ。）の返還を移管先取引参加者（移管先取引参加者が非清算参加者である場合には、当該移管先取引参加者及びその指定清算参加者）に求めることはできないこと。
- (2) 前条第3号の規定により取引証拠金返還請求権を行使した場合は、第6条第1号の規定にかかわらず、前条第2号の規定により取引証拠金として預託していたものとみなされる額に相当する額の金銭の返還がなされること。この場合において、当該金額を限度として、私の委託証拠金の返還請求権が消滅すること。
- (3) 私が前号の規定により取引証拠金の返還を受ける前に、貴（貴 が非清算参加者である場合には、貴 又は貴 の指定清算参加者）から委託証拠金の全部又は一部の返還を受けた場合は、その限度で、私が有する第5条第1項に定める取引証拠金返還請求権が貴（貴 が非清算参加者である場合には、貴 又は貴 の指定清算参加者）に移転すること。

participant) acting as my/our agent;

- (2) If I/we deposit a brokerage margin and the clearing margin is deposited as a replacement deposit in such a case (including the case where the replacement deposit set forth in the proviso to Article 3, Paragraph 1, has been made), the amount of my/our claim for return set forth in the preceding Article, Paragraph 1, Item (2) hereof shall be deemed to have been deposited through the Transferee (in the case where your company is a non-clearing participant, the Transferee and the designated clearing participant) acting as my/our agent;
- (3) Notwithstanding the provision of Article 5, Paragraph 2 hereof, the claim for return of clearing margin set forth in Article 5, Paragraph 1 hereof may only be exercised through the Transferee (in the case where your company is a non-clearing participant, the Transferee and the designated clearing participant) acting as my/our agent.

**Article 20. (Special Provisions in the Case of Replacement Deposit)**

In the event that the Transfer of Positions in the Case of Trading Halt, etc. due to Insolvency set forth in Article 17, Paragraph 1 hereof is carried out, and if I/we deposited a brokerage margin and the clearing margin is deposited as a replacement deposit in such a case (including the case where the replacement deposit set forth in the proviso to Article 3, Paragraph 1, has been made), I/we shall not object to the application of the following items:

- (1) I/we may not claim return of the brokerage margin deposited with your company by me/us (including the clearing margin submitted by me/us to your company in the case where the replacement deposit set forth in the proviso to Article 3, Paragraph 1, has been made; the same shall apply in this article) against the Transferee (in the case where your company is a non-clearing participant, the Transferee and the designated clearing participant);
- (2) Notwithstanding the provision of Article 6, Item (1) hereof, in the event that the claim for return of clearing margin is exercised in accordance with the preceding Article, Item (3), such return shall be conducted in the form of money equivalent to the amount of clearing margin which is deemed to have been deposited in accordance with the provisions of the preceding Article, Item (2) hereof. In such a case, a claim for return of my/our brokerage margin shall lapse to the extent of the amount of return; and
- (3) In the event that I/we receive all or part of the brokerage margin from your company (in the case where your company is a

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non-clearing participant, your company and your company's designated clearing participant) before I/we receive the return of the clearing margin in accordance with the provision of the preceding item, my/our claim for return of the clearing margin set forth in Article 5, Paragraph 1 hereof shall be transferred to your company (in the case where your company is a non-clearing participant, your company and your company's designated clearing participant) to the extent of the amount returned by your company.

(支払不能による売買停止等時の建玉の移管が行われなかった場合の証拠金の取扱い)

第21条 金融商品取引所により、貴 について支払不能による売買停止等が行われ、当該金融商品取引所が顧客の委託に基づく未決済約定について引継ぎ又は転売若しくは買戻し若しくは権利行使を行わせることとした場合（私の委託に基づく未決済約定について第17条第1項の支払不能による売買停止等時の建玉の移管が行われた場合を除く。）には、第5条の規定にかかわらず、次の各号に掲げる取扱いが行われることに異議のないこと。

- (1) 私が差し入れた取引証拠金が直接預託されていたときは、第5条第1項第1号に掲げる金銭又は代用有価証券につき、クリアリング機構の定めるところにより、クリアリング機構に対して直接返還請求が行えること。
- (2) 私が委託証拠金を預託し、取引証拠金が差換預託されていたとき（第3条第1項ただし書に規定する差換預託が行われていたときを含む。）は、第18条第1項第2号の規定により私が返還請求権を有する額に相当する額の金銭につき、クリアリング機構の定めるところにより、クリアリング機構に対して直接返還請求が行えること。この場合において、当該金額を限度として、貴 に対する委託証拠金（第3条第1項ただし書に規定する差換預託が行われていた場合における私が貴 に差し入れた取引証拠金を含む。以下この項において同じ。）の返還請求権が消滅すること。
- (3) 私が前号の規定により取引証拠金の返還を受ける前に、貴（貴 が非清算参加者である場合には、貴 又は貴 の指定清算参加者）から委託証拠金の全部又は一部の返還を受けた場合は、その限度で、私が有する前号に定める取引証拠金返還請求権が貴（貴 が非清算参加者である場合には、貴 又は貴 の指定清算参加者）に移転すること。

**Article 21. (Handling of Deposited Margin in the Case that the Transfer of Positions in the Case of Trading Halt, etc. due to Insolvency Is Not Carried Out)**

Notwithstanding the provisions of Article 5 hereof, if your company is subject to the Suspension of Transactions and others due to Insolvency and the Financial Instruments Exchange decides to have the unsettled transactions relating to your customers' positions transferred, resold or repurchased or to have options in connection with such positions exercised (except for the case where the unsettled transactions relating to my/our positions are subject to the Transfer of Positions in the Case of Trading Halt, etc. due to Insolvency set forth in Article 17, Paragraph 1 hereof), I/we shall not object to the application of the following items:

- (1) If the clearing margin submitted by me/us is directly deposited, I/we may claim directly against JSCC the return of the money or securities in lieu of money set forth in Article 5, Paragraph 1, Item (1) hereof, in accordance with the provisions prescribed by JSCC.
- (2) If I/we deposit a brokerage margin and the clearing margin is deposited as a replacement deposit in such case (including the case where the replacement deposit set forth in the proviso to Article 3, Paragraph 1, has been made), I/we may claim directly against JSCC the return of the money equivalent to the amount of my/our claim set forth in Article 18, Paragraph 1, Item (2) hereof, in accordance with the provisions prescribed by JSCC. In such a case, a claim for return of the brokerage margin (including the clearing margin submitted by me/us to your company in the case where the replacement deposit set forth in the proviso to Article 3, Paragraph 1, has been made; the same shall apply in this paragraph) against your company shall lapse to the extent of the amount of the return; and
- (3) In the event that I/we receive all or part of the brokerage margin from your company (in the case where your company is a non-clearing participant, your company and your company's

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designated clearing participant) before I/we receive the return of the clearing margin in accordance with the provision of the preceding item, my/our claim for return of the clearing margin set forth in the preceding item shall be transferred to your company (in the case where your company is a non-clearing participant, your company and your company's designated clearing participant) to the extent of the amount returned by your company.

(支払不能による売買停止等に伴う請求)

第 22 条 金融商品取引所により、貴 について支払不能による売買停止等が行われた場合において、この約諾書に定める取扱いその他の当該金融商品取引所又はクリアリング機構の定める規則に基づき行われる取扱いにより、私が損害を被った場合であっても、移管先取引参加者、当該金融商品取引所及びクリアリング機構（貴 が非清算参加者である場合には、貴 の指定清算参加者、移管先取引参加者、当該金融商品取引所及びクリアリング機構）に対してその損害の賠償を請求しないこと。ただし、貴 の指定清算参加者、移管先取引参加者、当該金融商品取引所及びクリアリング機構に故意又は重過失が認められる場合にあつては、当該故意又は重過失が認められる者に対する請求はこの限りではない。

(債権譲渡等の禁止)

第 23 条 私がクリアリング機構及び貴 （貴 が非清算参加者である場合には、クリアリング機構、貴 及び貴 の指定清算参加者）に対して有する債権は、これを他に譲渡又は質入れしないこと。

(証拠金の利息その他の対価)

第 24 条 私が先物・オプション取引に関し、貴 に証拠金として差し入れ又は預託する金銭又は代用有価証券には、利息その他の対価をつけないこと。

(委託時間)

第 25 条 貴 への先物・オプション取引の委託は、貴 が定めた取扱時間内に行うこと。

**Article 22. (Claim in the Case of the Suspension of Transactions and others due to Insolvency)**

Even if I/we sustain damages, in the case where your company is subject to the Suspension of Transactions and others due to Insolvency conducted by the Financial Instruments Exchange, due to the treatment set forth in this Agreement or other rules prescribed by the Financial Instruments Exchange or JSCC, I/we shall not claim compensation for such damages against the Transferee or the Financial Instruments Exchange and JSCC (in the case where your company is a non-clearing participant, your designated clearing participant, Transferee, or the Financial Instruments Exchange and JSCC); provided, however, that if willful intention or gross negligence is recognized at your designated clearing participant, Transferee, the Financial Instruments Exchange or JSCC, this shall not apply for the corresponding party.

**Article 23. (Non-assignability of Claims)**

I/we shall not assign or pledge in the claims which I/we have against JSCC and your company (in the case where your company is a non-clearing participant; JSCC, your company and your designated clearing participant).

**Article 24. (Interest or Other Consideration on Margin)**

No interest or other consideration shall accrue on the money or securities in lieu of money submitted to or deposited with your company by me/us as margin with respect to any Futures/Options Trading.

**Article 25. (Business Hours)**

I/we shall conduct Futures/Options Trading through your company during the operating hours as specified by your company.

**(報告)**

第26条 第11条第1項各号及び同条第2項各号のいずれかの事由が生じた場合には、貴 に対し直ちに書面をもってその旨の報告をすること。

**(届出事項の変更届出)**

第27条 貴 届け出た氏名若しくは名称、印章若しくは署名鑑又は住所若しくは事務所の所在地その他の事項に変更があったときは、貴 に対し直ちに書面をもってその旨の届出をすること。

**(報告書等の作成及び提出)**

第28条 私は、貴 が日本国の法令、金融商品取引所又はクリアリング機構の規則等に基づき要求される場合には、私に係る先物・オプション取引の内容その他を、日本国の政府機関、当該金融商品取引所又はクリアリング機構（貴 が非清算参加者である場合は、日本国の政府機関、当該金融商品取引所又は貴 の指定清算参加者）等宛に報告することに異議のないこと。この場合、私は、貴 の指示に応じて、かかる報告書その他の書類（電磁的記録を含む。次項において同じ。）の作成に協力すること。

2 前項の規定に基づき行われたかかる報告書その他の書類の作成及び提供に関して発生した一切の損害については、貴 は免責されること。

**(免責事項)**

第29条 天災地変等の不可抗力その他正当な事由により、私の請求に係る取引証拠金又は委託証拠金等の返還が遅延した場合に生じた損害については、貴 及びクリアリング機構（貴 が非清算参加者である場合には、貴 、貴 の指定清算参加者及びクリアリング機構）がその責めを負わないこと。

2 前項の事由による取引証拠金又は委託証拠金等の紛失、滅失、き損等の損害についても貴 及びクリアリング機構（貴 が非清算参加者である場合には、貴 、貴 の指定清算参加者及びクリアリング機構）がその責めを負わないこと。

3 貴 が、諸届その他の書類に使用された印影又は署名を届出の印鑑又は署

**Article 26. (Report)**

In the case that any of the events set forth in Article 11, Paragraphs 1 and 2 hereof occurs, I/we shall immediately report to that effect to your company in writing.

**Article 27. (Notice of Changes in Reported Matters)**

I/we shall immediately give notice to your company in writing whenever any change in my/our name or trade name, seal, signature (shomei kan), address or location of offices or any other matter occurs.

**Article 28. (Preparation and Submission of Reports, etc.)**

I/we shall not object to your company reporting the matters in connection with the Futures/Options Trading carried out by me/us to the governmental authorities of Japan, the Financial Instruments Exchange or JSCC (in the case where your company is a non-clearing participant; governmental authorities of Japan, the Financial Instruments Exchange or your designated clearing participant), etc., if it is required under the laws of Japan or the rules of the Financial Instruments Exchange or JSCC, etc. In such a case, I/we shall cooperate with your company in the preparation of such reports and other documents (including records in an electronic format; the same shall apply to the following paragraph.) under the direction of your company.

2. Your company shall not be liable for any damages caused in relation to the preparation or offering of the reports and other documents conducted in accordance with the provision of the preceding paragraph.

**Article 29. (Immunity from Liability)**

Your company and JSCC (in the case where your company is a non-clearing participant; your company, your designated clearing participant, and JSCC) shall not be liable for any damages caused by a delay in the return of clearing margin or brokerage margin, etc. claimed by me/us, due to force majeure, such as a natural disaster and other justifiable reasons.

2. Your company and JSCC (in the case where your company is a non-clearing participant; your company, your designated clearing participant, and JSCC) shall not be liable for any damages on clearing

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名鑑と相当の注意をもって照合し、相違ないものと認めて取り扱ったうえは、それらの書類につき偽造、変造その他の事故があっても、そのために生じた損害については貴 がその責めを負わないこと。

- 4 金融商品取引所における先物・オプション取引の立会時間内であるにもかかわらず、貴 の取扱時間外であるために、貴 に対して先物・オプション取引の委託ができないことにより生じた損害については、貴 がその責めを負わないこと。
- 5 証拠金所要額の計算の不能、遅延若しくは誤り又は変更によって生じた損害については、貴 、金融商品取引所、クリアリング機構、証拠金所要額の計算に用いる数値の算出者及び提供者並びに証拠金計算方法の開発者及び提供者がその責めを負わないこと。

(通知の効力)

第30条 私が貴 に届け出た住所又は事務所にあて、貴 、金融商品取引所又はクリアリング機構によりなされた先物・オプション取引に関する諸通知が、転居、不在その他私の責めに帰すべき事由により延着し、又は到着しなかった場合においては、通常到達すべき時に到達したものとすること。

(適用法)

第31条 本約諾は、日本国の法律により支配され、解釈されるものとすること。

(合意管轄)

第32条 私と貴 との間の先物・オプション取引に関する訴訟については、貴 本店又は支店の所在地を管轄する裁判所のうちから貴 が管轄裁判所を指定することができること。

margin or brokerage margin, etc., such as loss or mutilation, due to the reasons set forth in the preceding paragraph.

3. If your company collates the seal or signature used in various reports or other documents with the registered seal impression or signature with due diligence, and deems such seal or signature to be genuine, your company shall not be liable for any damages caused by forgery, alteration or other accidents concerning such documents.

4. Your company shall not be liable for any damages caused by my/our not being able to conduct Futures/Options Trading through your company outside of your company's operating hours even though the trade request may have been made during the futures/options trading hours at the Financial Instruments Exchange.

5. Your company, the Financial Instruments Exchange, JSCC, a party who is a calculator/provider of numerical values used for calculating the required amount of margin, and the margin calculation algorithm developer/provider shall not be liable for any damages caused by any inability, delay, mistake or amendment when calculating margin requirements.

**Article 30. (Effect of Notice)**

In the event that a notice of any kind with respect to the Futures/Options Trading by your company, the Financial Instruments Exchange or JSCC addressed to my/our reported address or office location is delayed or does not arrive due to my/our change of address or location, absence or any other reason attributable to me/us, it shall be deemed to have arrived at the time when it should usually have arrived.

**Article 31. (Applicable Law)**

This Agreement shall be governed by the laws of Japan and construed in accordance therewith.

**Article 32. (Agreed Jurisdiction)**

With respect to any legal action arising in connection with the Futures/Options Trading between your company and me/us, your company shall have the right to designate a court having jurisdiction over such legal action from the courts having jurisdiction over the place where the head office or \_\_\_\_\_ branch of your company is located.

(電磁的方法による書面の授受)

第 33 条 貴 は、その用いる電磁的方法（電子情報処理組織を使用する方法その他の情報通信の技術を利用する方法であって金融商品取引業等に関する内閣府令第 57 条の 3 に定める方法と同様の方法をいう。以下同じ。）の種類及び内容を提示し、私の書面又は電磁的方法による承諾を得た場合には、第 3 条第 2 項、第 26 条及び第 27 条に規定する書面（印章又は署名鑑の変更に係るものを除く。）の受入れに代えて、電磁的方法により、当該書面によるべき同意を得ること若しくは報告又は届出を受けることができること。この場合において、貴 は私から当該書面によるべき同意を得たもの若しくは報告又は届出を受けたものとみなされること。

2 私、前項の規定による承諾をした後に、書面又は電磁的方法により、電磁的方法による同意、報告又は届出を行わない旨の申出をした場合（私が再び前項の規定による承諾をした場合を除く。）は、貴 は、前項の規定に基づき電磁的方法により受けることができることとした書面によるべき同意を得ないこと若しくは報告又は届出を受けないこと。

(有価証券)

第 33 条の 2 この約諾書において、有価証券とは、法第 2 条第 1 項に規定する有価証券及び同条第 2 項の規定により当該有価証券とみなされる権利をいうこと。

(取次者の遵守事項)

第 34 条 私が取次者である場合は、私は申込者に対して金融商品取引所の諸規則を遵守させることとし、当該金融商品取引所から要請があるときは、私の取次業務に関する資料を貴 を通じて又は直接当該金融商品取引所に提出すること。

2 私が取次者である場合は、次の各号に掲げる事項について貴 に対して通知すること。

- (1) 私が貴 に委託した先物・オプション取引が申込者の委託に基づくものである場合は、その旨
- (2) 前号の場合において、私が貴 に差し入れ又は預託する証拠金について、私が申込者から差し入れを受けた取引証拠金若しくは委託証拠金又は私が申込者から取次証拠金の預託を受けて私が差し換えた取引証拠金若しくは委託証拠金の別

3 私が取次者である場合は、申込者との間で、証拠金に対する権利及び返還に関する事項その他この約諾書及び証拠金規則の規定に準じた事項を内容と

**Article 33. (Electronic Transfer of Document)**

Your company may obtain a approval or receive reports or notifications by an electronic means (or a means of using computer information processing system and other means of using other information dissemination technology, both of which are prescribed in Article 57-3 of Cabinet Order relating to financial instruments business etc., or the means of the same kind; the same shall apply hereinafter) instead of receiving the document prescribed in Article 3, Paragraph 2, Article 26 and Article 27 (excluding the document for the change of a seal or signature), if your company offers the type and the content of the electronic means your company is to use, and your company obtained my approval in writing or by the electronic means.

2. Your company does not obtain a approval or receive reports or notifications by the electronic means, if I/we make an offer of not making a approval or giving reports by the electronic means after the approval under the preceding paragraph (except the case your company obtains my/our approval again under the preceding paragraph).

**Article. 33-2 (Securities)**

In this agreement, “securities” refers to securities as defined in Article 2 of the Act, and the rights deemed as securities as defined in Article 2, Paragraph 2 of the Act.

**Article 34. (Rules for Agency Firm)**

If I/we am/are an agency firm, I/we shall ensure that any applicant customer abide by the rules and regulations of the Financial Instruments Exchange and that, if requested by the Financial Instruments Exchange, I/we shall submit reference materials on my/our agent services either through your company or directly to the Financial Instruments Exchange.

2. If I/we am/are an agency firm, I/we shall notify the following matters to your company:

- (1) That I/we am/are acting as an agency firm for another customer in conducting Futures/Options Trading through your company, if this is the case;
- (2) In the case of the preceding item, whether the margin that I/we submit to or deposit with your company is clearing margin or brokerage margin that the applicant customer submitted to me/us or

(Reference Translation)

する契約を締結すること。

- 4 先物・オプション取引に係る有価証券等清算取次ぎの委託の取次ぎについては、有価証券等清算取次ぎを委託した取引参加者を当該先物・オプション取引の取次ぎを行う者とみなして、第1項から前項までの規定を適用すること。

(ギブアップを行う場合の取扱い)

第35条 私が貴 にギブアップに係る先物・オプション取引の委託を行うときは、次の各号に掲げる取扱いに従うことに異議のないこと。

- (1) 貴 が注文執行取引参加者である場合は、清算執行取引参加者に先物・オプション取引口座を設定しなければならない。ただし、私が取引取次者（注文執行取引参加者に先物・オプション取引を委託した顧客が、金融商品取引業者又は外国証券業者である場合であって、当該委託が注文執行取引参加者に対する先物・オプション取引の委託の取次ぎによるものであるときの当該顧客をいう。以下この項において同じ。）である場合又はギブアップに係る先物・オプション取引の決済の委託の取次ぎを決済取次者（清算執行取引参加者に先物・オプション取引の決済を委託した顧客が、金融商品取引業者又は外国証券業者である場合であって、当該委託が清算執行取引参加者に対する先物・オプション取引の決済の委託の取次ぎによるものであるときの当該顧客をいう。以下この項において同じ。）に対して申し込んだ顧客である場合は、この限りでない。
- (2) 貴 が清算執行取引参加者である場合は、注文執行取引参加者に先物・オプション取引口座を設定しなければならない。ただし、私が決済取次者である場合又はギブアップに係る先物・オプション取引の委託の取次ぎを取引取次者に対して申し込んだ顧客である場合は、この限りでない。
- 2 私が貴 にギブアップに係る先物・オプション取引の委託を行う場合において、貴 が注文執行取引参加者であるときは、次の各号に掲げる取扱いが行われることに異議のないこと。
- (1) 清算執行取引参加者がテイクアップ申告を行ったことによってギブアップが成立したときは、貴 において当該ギブアップに係る先物・オプション取引が将来に向かって消滅するとともに、当該消滅した先物・オプション取引についての貴 に対する委託が終了し、当該清算執行取引参加者において当該消滅した先物・オプション取引と同一内容の先物・オプション

whether it is clearing margin or brokerage margin deposited by me/us as replacement deposit after receiving a deposit of agency margin from the applicant customer.

3. If I/we am/are an agency firm, I/we shall make a contract equivalent to the provisions in this Agreement and the Margin Rules with the applicant customer on matters pertaining to the rights and return of margins and the like.
4. With regard to an agency firm of clearing for securities and others relating to Futures/Options Trading, a trading participant who entrusted such clearing will be deemed as an agency firm for Futures/Options Trading; therefore, Paragraph 1 to 3 of this Article will be applied.

**Article 35 (Handlings of Cases of Give-up)**

I/We shall not object to the handling enumerated in each of the following items when I/we entrust Futures/Options Trading related to Give-up.

- (1) In cases where your company is an order execution trading participant, I/we shall open a futures/options trading account with a clearing execution trading participant; provided, however, that this shall not apply to cases where I/we are a trading agent (\*1) or where I/we are a customer who has applied for the entrustment of settlement of Futures/Options Trading pertaining to the give-up with a clearing agent (\*2)

\*1 Means a customer in cases where such customer entrusted Futures/Options Trading with an order execution trading participant and is a financial instruments business operator or foreign securities business operator, and such entrustment is based on the brokerage of entrustment of Futures/Options Trading with the order execution trading participant; the same shall apply in this paragraph.

\*2 Means a customer in cases where such customer entrusted settlement of Futures/Options Trading with a clearing execution trading participant and such participant is a financial instruments business operator or foreign securities business operator, and such entrustment is based on brokerage of entrustment of settlement of Futures/Options Trading with the clearing execution trading participant; the same shall apply in this paragraph.

- (2) In cases where your company is a clearing execution trading participant, I/we shall open a futures and options trading account;

(Reference Translation)

- ン取引が新たに発生し、当該新たに発生した先物・オプション取引の決済に係る委託が当該テイクアップ申告を行った清算執行取引参加者との間で成立すること。
- (2) 清算執行取引参加者がテイクアップ申告を行わなかった場合において、当該テイクアップ申告が行われなかった先物・オプション取引につき、私が処理方法を貴 との間で定めた所定の時限までに貴 に指示しなかった場合には、当該先物・オプション取引を決済するために必要な転売若しくは買戻し又は権利行使を、私の計算において貴 が任意に行うこと。
  - (3) 前号の転売若しくは買戻し又は権利行使を行った結果、損失が生じた場合には、貴 に対して、損失の額に相当する金銭を直ちに支払うこと。
- 3 私が貴 にギブアップに係る先物・オプション取引の委託を行う場合において、貴 が清算執行取引参加者であるときは、次の各号に掲げる取扱いが行われることに異議のないこと。
- (1) 貴 がテイクアップ申告を行ったことによってギブアップが成立したときは、注文執行取引参加者において当該ギブアップに係る先物・オプション取引が将来に向かって消滅するとともに、当該消滅した先物・オプション取引についての当該注文執行取引参加者に対する委託が終了し、貴 において当該消滅した先物・オプション取引と同一内容の先物・オプション取引が新たに発生し、当該新たに発生した先物・オプション取引の決済に係る委託が貴 との間で成立すること。
  - (2) 貴 は、注文執行取引参加者との間であらかじめ定めた条件に合致しないことにより、ギブアップに係る先物・オプション取引の決済に係る委託を受けないことがあること。

- provided, however, this shall not apply to cases where I/we are a settlement agent or a customer who applied for the brokerage of entrustment of Futures/Options Trading related to the give-up with the trading agent.
2. In cases where I/we entrust Futures/Options Trading pertaining to a give-up, if your company is an order execution trading participant, I/we shall not object to the handlings enumerated in each of the following items
- (1) When a give-up is established due to a take-up application made by a clearing execution trading participant, the Futures/Options Trading pertaining to such give-up shall be extinguished for your company for the future, the entrustment with your company related to such extinguished Futures/Options Trading shall be terminated, Futures/Options Trading whose content is the same as such extinguished Futures/Options Trading shall be newly created with a clearing execution trading participant, and the entrustment of settlement of such newly created Futures/Options Trading shall be established with the clearing execution trading participant who made application for such take-up.
  - (2) Where a clearing execution trading participant has not made application for a take-up, if I/we do not give instruction by the time agreed between your company and me/us with regard to handling methods, your company shall conduct, at your company's discretion, resale, repurchase or exercise of options that is required for the settlement of the Futures/Options Trading for my/our account
  - (3) Where, as a result of the resale, repurchase, or exercise in the preceding item, losses have occurred, I/we shall immediately pay money equivalent to the amount of such losses to your company.
3. Where I/we entrust Futures/Options Trading pertaining to a give-up, and your company is a clearing execution trading participant, I/we shall not object to the handlings enumerated in each of the following items.
- (1) Where a give-up is established due to your company making application for a take-up, the Futures/Options Trading pertaining to the give-up shall be extinguished for the order execution trading participant for the futures, the entrustment of such extinguished Futures/Options Trading with such order execution trading participant shall be terminated, the Future/Options trading whose content is the same content as such extinguished Futures/Options Trading shall be newly created with your company, and the entrustment of settlement of such newly created Futures/Options trading shall be established with your company.

(Reference Translation)

- (2) Your company may not accept the entrustment of settlement of the Futures/Options Trading pertaining to the give-up due to the conditions agreed upon in advance with the order execution trading participant not being satisfied.

(建玉の移管の取扱い)

第36条 私が既に先物・オプション取引口座を設定している他の取引参加者に建玉の移管を希望するときは、貴 及び当該他の取引参加者に当該建玉の移管について申し込み、所定の時限までにその承諾を受けなければならないことに異議のないこと。

**Article 36 (Handling of Position Transfer)**

Where I/we wish for transfer of positions to another trading participant with which I/we have already opened a Futures/Options Trading Account, I/we must apply for transfer of positions with your company and such other trading participant and receive acceptance from them by a predetermined deadline.

(Reference Translation)

(注) 次の各号に掲げる場合における当該各号に定める条項については、この約諾書から削除することができる。

- (1) 顧客が取次者（取引参加者が非清算参加者である場合にあっては、有価証券等清算取次ぎの委託の取次ぎの委託の取次ぎを引き受けた者）でない場合  
第34条
- (2) 顧客がギブアップを行わない場合  
第35条
- (3) 顧客が建玉の移管を行わない場合  
第36条

(注) 本約諾書は、日本語によるものを正本とする。

(Note) Articles and paragraphs provided by each of the following items may be deleted from this Agreement

- (1) Where the customer is not an agent (in cases where the trading participant is a non-clearing participant, means a party that has undertaken brokerage of entrustment of brokerage of entrustment of Brokerage for Clearing of Securities, etc.  
Article 34
- (2) The customer does not conduct a give-up  
Article 35
- (3) The customer does not transfer positions  
Article 36

(Note) This Agreement written in the Japanese language shall be original.

**Special Rules for Business Regulations and Brokerage Agreement Standards  
Relating to the J-NET Market**  
(As of July 19, 2016)

Osaka Exchange, Inc.

**Chapter 1 General Provisions**

**Rule 1. Purpose**

1. These Special Rules prescribe the special rules for the Business Regulations and the Brokerage Agreement Standards, with respect to acceptance of entrustment, etc. of market transactions of derivatives (excluding brokerage for clearing of securities, etc.) on the market where market transactions of derivatives (excluding index futures trading based on the index enumerated in Rule 5, Item 11 of the Business Regulations and the Exchange Foreign Exchange Margin Trading prescribed in the Rule 1, Paragraph 1 of Special Rules for Business Regulations and Brokerage Agreement Standards Relating to Exchange Foreign Exchange Margin Trading; the same shall apply hereinafter) are carried out outside a trading session (hereinafter referred to as the "J-NET Market"), among the OSE markets (meaning the financial instruments exchange markets established by OSE; the same shall apply hereinafter).
2. Any matters which are not prescribed in these Special Rules shall be governed by the Business Regulations and the Brokerage Agreement Standards.

**Rule 2. Definitions of Terms**

The meanings of the terms used in these Special Rules shall be as defined respectively in the following items as well as in other rules herein:

- (1) "J-NET trading" shall mean market transactions of derivatives which are carried out in an off-auction market, and refer to the trading prescribed in the following item and Item 3.
- (2) "J-NET single issue trading" shall mean market transactions of derivatives whose volume is equal to or exceeds the volume prescribed by OSE pursuant to these Special Rules.
- (3) "J-NET combo trading" shall mean market transactions of derivatives in which a sale and purchase of a certain number of issues (meaning contract months in the case of futures trading; the same shall apply hereinafter) are carried out at the same time with such number specified by OSE pursuant to these Special Rules.
- (4) An "auction market" shall mean, out of the OSE markets, a market in which market

transactions of derivatives are carried out in a trading session.

## **Chapter 2 Special Rules for Business Regulations, etc.**

### **Rule 3. Bids and Offers for J-NET Trading**

1. A Trading Participant (meaning a Futures, etc. Trading Participant prescribed in Rule 2, Paragraph 2 of the Trading Participant Regulations or a Government Bond Futures, etc. Trading Participant prescribed in Paragraph 3 of the same rule; the same shall apply hereinafter) must make a bid or an offer when it intends to carry out J-NET trading. In this case, the Trading Participant shall make clear to OSE whether the bid/offer is for customer's account or for proprietary account as well as any other matters deemed necessary by OSE.
2. A bid/offer for J-NET trading shall be made from a Trading Participant Terminal Device of said Trading Participant.
3. A bid/offer for J-NET trading shall be made on the basis of prices stipulated by OSE.
4. For J-NET single issue trading in which a sale and a purchase are carried out simultaneously, the same Trading Participant shall simultaneously make an offer and a bid that is matched with such offer.
5. For J-NET combo trading, the same Trading Participant shall simultaneously make an offer and a bid that is matched with such offer for each issue.
6. In addition to the provisions of these Special Rules, OSE shall specify matters necessary with respect of bids and offers for J-NET trading.

### **Rule 4. Trading Hours for J-NET Trading**

1. The trading hours for J-NET trading shall be the hours stipulated in the following items for each type of market transactions of derivatives:
  - (1) Government bond futures trading and government bond futures options trading:  
From 8:20 a.m. to 3:15 p.m. and from 3:25 p.m. to 5:30 a.m. on the following day
  - (2) Index futures trading (excluding index futures trading based on Nikkei Stock Average Volatility Index (hereinafter referred to as "Nikkei 225 VI futures trading")) and index options trading:  
From 8:20 a.m. to 4:00 p.m. and from 4:15 p.m. to 5:30 a.m. on the following day
  - (3) Nikkei 225 VI futures trading:  
From 8:20 a.m. to 4:00 p.m. and from 4:15 p.m. to 7:00 p.m.
  - (4) Security options trading:  
From 8:20 a.m. to 4:00 p.m.
2. When it deems necessary, OSE may temporarily change the trading hours prescribed in the

preceding paragraph. In this case, OSE shall notify Trading Participants of such change in advance.

**Rule 5. Execution of Transactions in J-NET Trading**

1. For J-NET single issue trading, a transaction shall be executed when either of a bid/offer matches an offer/bid placed to match such bid or offer.
2. For J-NET combo trading, a transaction in each issue shall be executed when all offers for the issues match all bids placed to match such offers.
3. Notwithstanding the provisions of the preceding two paragraphs, if OSE deems that any price of a bid or offer referred to in the preceding two paragraphs is not appropriate considering the trading condition, etc. in a trading session, a transaction(s) shall not be executed.

**Rule 6. Notification and Confirmation of Transaction Details**

1. When J-NET trading was carried out, OSE shall notify both the selling Trading Participant and the purchasing Trading Participant of the details of the trading through its trading system.
2. When Trading Participants received notification referred to in the preceding paragraph, they shall check and confirm the details thereof.
3. Details of the trading which were notified pursuant to the provisions of Paragraph 1 may be corrected only if OSE deems it necessary.

**Rule 7. Temporary Halt of J-NET Trading**

In the cases referred to each of the following items, OSE shall temporarily halt J-NET trading of the issues referred to therein for the duration of the temporary halt in auction trading of such each issue:

- (1) Where trading in whole or in part of issues of futures is temporarily halted in a trading session pursuant to the provisions of Rule 33, Paragraph 1 of the Business Regulations (including cases where trading is temporarily halted pursuant to the provisions of Paragraph 3 of the same rule):

The issues for which trading is temporarily halted;

- (2) Where trading in whole or in part of issues of government bond futures options or index options is temporarily halted in a trading session pursuant to the provisions of Rule 33, Paragraph 4 of the Business Regulations:

The issues for which trading is temporarily halted.

**Rule 8. Suspension of J-NET Trading**

In the cases enumerated in the following items, OSE may suspend J-NET trading (limited to

government bond futures trading in the case of Item 1, index futures trading in the case of Item 2, security options trading in the cases of Items 3 through 5, government bond futures options trading in the case of Item 6, and index options trading in the case of Item 7) according to the procedures established by OSE:

- (1) Where government bond futures trading in a trading session has been suspended pursuant to the provisions of Rule 32 of the Business Regulations;
- (2) Where index futures trading in a trading session has been suspended pursuant to the provisions of Rule 32 of the Business Regulations;
- (3) Where security options trading in a trading session has been suspended pursuant to the provisions of Rule 32 of the Business Regulations;
- (4) Where trading in an underlying security is suspended pursuant to the provisions of Rule 29 (excluding Item 4) of the Business Regulations of Tokyo Stock Exchange, Inc.; hereinafter referred to as "TSE") and Rule 19 (excluding Item 4) of the Special Regulations of Business Regulations and Brokerage Agreement Standards Concerning ToSTNeT Market of TSE or when any measure equivalent thereto is taken on a financial instruments exchange market established by another financial instruments exchange;
- (5) Where an issuer of an underlying security conducts a shareholder-directed spin-off;
- (6) Where government bond futures options trading in a trading session has been suspended pursuant to the provisions of Rule 32 of the Business Regulations;
- (7) Where index options trading in a trading session has been suspended pursuant to the provisions of Rule 32 of the Business Regulations;
- (8) Where OSE deems that J-NET trading shows, or is likely to show, unusual movement, or when OSE deems it inappropriate to continue trading in terms of trading management; or
- (9) Where OSE deems it difficult to continue J-NET trading in the event of a problem in the operation of the trading system, etc.

**Rule 9. Transactions for Error Correction, etc. pertaining to J-NET Trading**

1. In the event that a Trading Participant has failed to execute a customer's order for J-NET trading on the OSE markets under his/her instructions due to errors, etc. by truly unavoidable reasons, such Trading Participant may, in accordance with the provisions of OSE, with the prior approval of OSE, execute a sale or purchase at a price recognized as reasonable by OSE for its proprietary account as a counterparty to such transaction.
2. The settlement of a sale or purchase in the preceding paragraph shall be made on the day that would be the settlement day if the sale or purchase had been executed in accordance with the original instructions of the customer.

**Rule 10. Business Regulations Applied Mutatis Mutandis**

1. The provisions of Rule 20 through Rule 22, Rule 25, and Rule 29 of the Business Regulations shall apply mutatis mutandis to J-NET trading.
2. The provisions of Rule 17 of the Business Regulations shall not apply to J-NET trading.

**Chapter 3 Special Rules for the Brokerage Agreement Standards**

**Rule 11. Instructions, etc. Upon Customer Order**

1. In cases where a customer entrusts an order for J-NET trading, the customer shall give an instruction or notification regarding the matters enumerated in the following items to the Trading Participant for each order; provided, however, if the Trading Participant agrees on a method for J-NET trading settlement designated in advance by the customer, it shall be deemed that the instructions referred to in Item 3 have been given.
  - (1) Whether the order is for J-NET single issue trading or J-NET combo trading
  - (2) Matters provided in each of the following categories a. through e. of market transactions of derivatives.
    - a. Government bond futures trading
      - (a) Issue
      - (b) Contract month
    - b. Index futures trading
      - (a) Underlying index
      - (b) Large contracts or mini contracts for index futures trading on Nikkei Average and TOPIX (Tokyo Stock Price Index)
      - (c) Contract month
    - c. Security options trading
      - (a) Underlying security
      - (b) Quantity of an underlying security for one trading unit of the security option
      - (c) Security put option or security call option
      - (d) Contract month
      - (e) Exercise price
    - d. Government bond futures options trading
      - (a) Issues pertaining to government bond futures transactions executed by exercise
      - (b) Government bond futures put option or government bond futures call option

- (c) Contract month
  - (e) Exercise price
  - e. Index options trading
    - (a) Underlying index
    - (b) Index put option or index call option
    - (c) Contract month
    - (d) Exercise price
  - (3) New sale or new purchase, or resale or repurchase
  - (4) Number of contracts
  - (5) Contract price
  - (6) Trading hours
  - (7) Valid period of customer's order
2. Notwithstanding the provisions other than those enumerated in the items in the preceding paragraph, if there is an agreement between a customer and the Trading Participant, the customer may instruct the matters referred to in Item 3 of the preceding paragraph before the cut-off time designated by the Trading Participant which is before 4:30 p.m. of the trading day of the entrustment of transaction.
3. In the case in the preceding paragraph, if the customer does not instruct the matters referred to in the preceding paragraph before the cut-off time specified in the preceding paragraph, it shall be deemed that a new sale or a new purchase has been instructed.

**Rule 12. Instructions, etc. upon Customer Order for J-NET Trading pertaining to Give-up**

1. When a customer entrusts a J-NET trading pertaining to give-up, he/she shall give the Order Execution Trading Participant instructions on the matters enumerated in the following items in addition to the matters enumerated in each item (excluding Item 3) of Paragraph 1 of the preceding rule.
- (1) Instruction to the effect that it is a J-NET trading pertaining to give-up
  - (2) The name of the Designated Clearing Execution Trading Participant
  - (3) Matters necessary for the Designated Clearing Execution Trading Participant to confirm which customer conducts the J-NET trading pertaining to give-up
2. Notwithstanding the provisions of the preceding paragraph, if there is an agreement between the customer, the Order Execution Trading Participant and the Designated Clearing Execution Trading Participant, the customer may give the instruction referred to in the preceding paragraph by the cut-off time which the Order Execution Trading Participant specifies before 4:00 p.m. of the trading day when such transaction is entrusted ends.

3. Notwithstanding the proviso to Paragraph 1 of the preceding rule and the provisions of Paragraph 2, when a give-up is effected, the customer shall instruct the matters enumerated in Paragraph 1, Item 3 of the preceding rule regarding the new J-NET trading to the Clearing Execution Trading Participant by the cut-off time which the Clearing Execution Trading Participant specifies before 4:30 p.m. of the trading day on which such transaction is entrusted ends.
4. In the event that J-NET trading that a customer intends to entrust pertains to give-up, the proviso to Paragraph 1 of the preceding rule (excluding the term "provided, however,"; the same shall apply hereinafter), and the provisions of Paragraphs 2 and 3 of the preceding rule shall be applied mutatis mutandis. In this case, the term "Trading Participant" in the proviso to Paragraph 1, and Paragraphs 2 and 3 shall be "Clearing Execution Trading Participant"; the term "Item 3" in the proviso to Paragraph 1 shall be "Paragraph 1, Item 3 of the preceding rule" in Paragraph 1; the term "preceding paragraph" in Item 2 shall be "Paragraph 1 of the preceding rule"; and the term "preceding paragraph" in Item 3 by "Paragraph 2 of the preceding rule".
5. In the event that a sale or purchase of J-NET trading pertaining to give-up is extinguished, the entrustment between the customer and the Order Execution Trading Participant shall be terminated and, at the same time, a new entrustment pertaining to the settlement shall arise between the customer and Clearing Execution Trading Participant with respect to the sale or purchase of J-NET trading that newly arises pursuant to the provisions of the same paragraph.

**Rule 13. Effectiveness of Customer's Order at Resumption of J-NET Trading**

Even in the event that OSE has suspended J-NET trading pursuant to Rule 8, any outstanding customer's order shall remain effective during the duration of such order instructed by the customer as prescribed in Rule 11, Paragraph 1, Item 7; provided, however, that this shall not apply to cases where the customer has instructed to cancel such order in such an event.

**Chapter 4 Miscellaneous**

**Rule 14. Notification and Publication to Trading Participants, etc.**

OSE shall notify Trading Participants and publicize the total trading volume, etc. on the J-NET market of OSE on a daily basis through its trading system, etc. in accordance with the provisions of Article 130 of the Financial Instruments and Exchange Act (Act No. 25 of 1948).

**Rule 15. Application to Brokerage for Clearing of Securities, etc.**

The provisions of Chapter 2 shall apply to the brokerage for clearing of securities, etc. pertaining to J-NET trading by regarding the Trading Participant that entrusts the brokerage for clearing of

(Reference Translation)

Special Rules for Business Regulations and Brokerage Agreement  
Standards, etc. Relating to the J-NET Market

securities, etc. as the entity that carries out such J-NET trading.

## **Rules on Margin and Transfer of Unsettled Contracts Pertaining to Futures/Options Contract**

(As of July 19, 2016)

Osaka Exchange, Inc.

### **CHAPTER 1 GENERAL RULES**

#### **Rule 1. Purpose**

1. These rules shall, pursuant to the provisions of Rule 31, Paragraph 1 of the Clearing and Settlement Regulations and the provisions of Rule 12 of the Brokerage Agreement Standards, provide necessary matters concerning margin and transfer of unsettled contracts pertaining to government bond futures contracts, index futures contracts, security options contracts, government bond futures options contracts, and index options contracts (hereinafter collectively referred to as the "Futures/Options Contracts").
2. Any amendment to these rules shall be made by a resolution from the Board of Directors; provided, however, that this shall not apply to cases where the contents of the amendment is of minor significance.

#### **Rule 2. Definitions**

1. In these rules, "Futures Contract" means a government bond futures contract or an index futures contract traded on a financial instruments exchange market to be established by Osaka Exchange, Inc. (hereinafter referred to as "OSE").
2. In these rules, "Options Contract" means a security options contract, a government bond futures options contract, or an index options contract traded in a financial instruments exchange market to be established by OSE.
3. In these rules, "Trading Participant" means the Futures, etc. Trading Participant as prescribed in Rule 2, Paragraph 2 of the Trading Participant Regulations or the Government Bond Futures, etc. Trading Participant as prescribed in Paragraph 3 of the same rule.
4. In these rules, "Obligations Pertaining to Futures/Options Contracts" means monetary payment obligations pertaining to settlement of Futures/Options Contracts, obligations of delivery/payment settlement pertaining to government bond futures contracts, and obligations to deliver securities pertaining to settlement by an exercise of options in security options contracts, and any other obligations that must be fulfilled relating to Futures/Options

Contracts.

5. In these rules, "Broker" means a customer that is a financial instruments business operator or a registered financial institution and that entrusts a Futures/Options Contract to the Trading Participant, and such entrustment is for a trade through brokerage of entrustment of a trade in Futures/Options Contract to a Trading Participant.
6. In these rules, "Applicant" means the person who applied for brokerage of entrustment to a Broker.
7. In these rules, "Non-Resident" means natural persons and corporations other than residents as prescribed in Article 6, Paragraph 1, Item 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949).
8. In these rules, "Clearing Participant" means the Clearing Participant with Government Bond Futures, etc. Clearing Qualification or Index Futures, etc. Clearing Qualification as prescribed in the Business Rules of Japan Securities Clearing Corporation (hereinafter referred to as "JSCC").
9. In these rules, "Non-Clearing Participant" means the Government Bond Futures, etc. Non-Clearing Participant as prescribed in Rule 24-2, Paragraph 2 of the Trading Participant Regulations and the Index Futures, etc. Non-Clearing Participant as prescribed in Paragraph 3 of the same rule.
10. In these rules, "Designated Clearing Participant" means, out of the Designated Clearing Participants as prescribed in Rule 27, Paragraph 1 of the Trading Participant Regulations, an entity designated by a Government Bond Futures, etc. Non-Clearing Participant or an Index Futures, etc. Non-Clearing Participant for entrustment of brokerage for clearing of securities, etc. pertaining to Futures/Options Contracts.
11. In these rules, "Non-Clearing Participant's Proprietary Clearing Margin" means the Clearing Margin that the Designated Clearing Participant deposits with JSCC for the Futures/Options Contracts for the proprietary account of a Trading Participant who is a Non-Clearing Participant.
12. In these rules, "Non-Clearing Participant's Clearing Margin for Customer Account" means the Clearing Margin that the Designated Clearing Participant deposits with JSCC for the Futures/Options Contracts entrusted by a customer of a Non-Clearing Participant.
13. In these rules, "Non-Clearing Participant's Clearing Margin for Customer Account (Direct Deposit)" means, the portion of the Non-Clearing Participant's Clearing Margin for Customer Account that the customer of the Non-Clearing Participant submitted to the Non-Clearing Participant as Clearing Margin (excluding such Clearing Margin as prescribed in the following paragraph).
14. In these rules, "Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker)" means, in the case where an

Applicant deposits a Brokerage Margin with a customer, the portion of the Non-Clearing Participant's Clearing Margin for Customer Account that such customer submits to the Trading Participant who is a Non-Clearing Participant as Clearing Margin equivalent to such Brokerage Margin.

15. In these rules, "Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit)" means the Non-Clearing Participant's Clearing Margin for Customer Account other than those prescribed in the preceding two paragraphs.
16. In these rules, "Clearing Participant's Clearing Margin for Customer Account (Direct Deposit)" means the portion of the Clearing Margin that the Clearing Participant deposits to JSCC concerning Futures/Options Contracts entrusted by a customer (hereinafter referred to as the "Clearing Participant's Clearing Margin for Customer Account") that is submitted by the customer to such Clearing Participant as Clearing Margin (excluding such amount submitted to the Clearing Participant by a customer as a Clearing Margin equivalent to the Brokerage Margin which was deposited to such customer by an Applicant (referred to as the "Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker)" in the following Paragraph)).
17. In these rules, "Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit)" means the portion of the Clearing Participant's Clearing Margin for Customer Account other than the Clearing Participant's Clearing Margin for Customer Account (Direct Deposit) and Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker).
18. In these rules, "Suspension of Trading and others due to Insolvency" means the measures provided in the following items:
  - (1) Suspension of market transactions of derivatives as prescribed in Rule 43, Paragraph 3 of the Trading Participant Regulations (excluding those based on brokerage for clearing of securities, etc.) or suspension of entrustment of brokerage for clearing of securities, etc.
  - (2) Suspension of market transactions of derivatives pursuant to the provisions of Rule 47, Paragraph 1 of the Trading Participant Regulations in cases where the measures provided in the following a. or b. have been enacted.
    - a. Cancellation of clearing qualification or suspension of obligation assumption pursuant to the provisions of the Business Rules of JSCC (limited to cases where OSE deems it especially necessary from the perspective of ensuring fulfillment of obligations, in cases of violation of Instructions for Improvement on Position Holding pursuant to the same provisions (including cases where such a violation is deemed specifically likely to occur)).

- b. Suspension of obligation assumption pursuant to the provisions of the Business Rules of JSCC (limited to cases where JSCC determines that the Clearing Participant is insolvent or is likely to become insolvent, or that it is especially necessary for other specific reasons).
19. In these rules, "Trading Day" means the trading day as prescribed in Rule 4, Item 11 of the Business Regulations

### **Rule 3. Purpose of Margin**

1. The purpose of Clearing Margin shall be to ensure, in accordance with the provisions of these rules, the performance of a Clearing Participant's obligations to pay or deliver to JSCC with respect to Futures/Options Contracts; a Non-Clearing Participant's obligations to pay or deliver to the Designated Clearing Participant with respect to Futures/Options Contracts; and the customer's obligations owed to a Trading Participant with respect to Futures/Options Contracts (in cases where the customer is a Broker, including the Applicant's obligations owed to the customer with respect to Futures/Options Contracts).
2. The purpose of margin (excluding Clearing Margin prescribed in the preceding paragraph) shall be to ensure, in accordance with the provisions of these rules, performance of a customer's obligations owed to a Trading Participant with respect to Futures/Options Contracts.
3. In the event of default on obligations prescribed in the preceding two paragraphs, JSCC, a Clearing Participant, a Non-Clearing Participant, or a customer as a Broker may exercise its right on the Clearing Margin or Margin, to satisfy such obligations.

## **CHAPTER 2**

### **RULES PERTAINING TO CLEARING/SETTLEMENT REGULATIONS**

#### **SECTION 1**

#### **CLEARING MARGIN**

##### **SUB-SECTION 1**

##### **CLEARING PARTICIPANT'S CLEARING MARGIN**

### **Rule 4. Clearing Participant's Clearing Margin**

Matters related to Clearing Participant's Clearing Margins pertaining to Futures/Options Contracts shall be governed by the Rules on Margins, etc. for Futures/Options Contracts prescribed by JSCC pursuant to the provisions of its Business Rules (hereinafter referred to as the "JSCC Futures/Options Clearing

Margin Rules").

## **SUB-SECTION 2**

### **NON-CLEARING PARTICIPANT'S CLEARING MARGIN**

#### **Rule 5. Submission of Clearing Margin for Proprietary Account**

A Non-Clearing Participant must, in the event a sale or purchase of a Futures Contract or sale of an Options Contract is carried out for its proprietary account, submit Clearing Margin equivalent to or greater than the required Clearing Margin for its proprietary account as prescribed in the JSCC Futures/Options Clearing Margin Rules, to the Designated Clearing Participant. In this case, securities may be submitted in lieu of cash as the Clearing Margin.

#### **Rule 6. Submission or Deposit of Clearing Margin for Customer Account**

1. A Non-Clearing Participant must, in the event a sale or purchase of a Futures Contract or sale of an Options Contract entrusted by a customer is carried out, submit or deposit a Clearing Margin equivalent to or greater than the required Clearing Margin for entrusted transactions as prescribed in the following paragraph, to the Designated Clearing Participant.
2. The amount of the required Clearing Margin for entrusted transactions shall be the sum of required Clearing Margins for each customer as prescribed in the JSCC Futures/Options Clearing Margin Rules for all customers.
3. A Non-Clearing Participant must submit the entire amount of the Clearing Margin submitted by a customer to the Designated Clearing Participant as an agent of such customer.
4. Notwithstanding the provisions of the preceding paragraph, a Non-Clearing Participant may, for the period until the fourth day (excluding non-business days (meaning non-business days prescribed in Rule 19, Paragraph 1 of the Business Regulations, including extraordinary non-business days prescribed in Paragraph 2 of the same rule; the same shall apply hereinafter); the same shall apply hereinafter for calculation of days) from the date when the customer submits the Clearing Margin, submit its proprietary money equivalent to or greater than the sum of the amount of money and the market value of the securities submitted by such customer as the Clearing Margin (meaning the amount evaluated at the market value (referring to the market value as prescribed in the Appendix of the JSCC Futures/Options Clearing Margin Rules; the same shall apply hereinafter) two days (to be moved up in order if the day falls on a holiday; the same shall apply hereinafter) prior to the date of submission of the Clearing Margin (in the event such securities are US Treasury securities, the amount converted into yen at the Telegraphic Transfer

Buying rate of the Tokyo foreign exchange market as of the second day prior to the day of submission of the Clearing Margin; the same shall apply to the following paragraph and Paragraph 6) to the Designated Clearing Participant as the Clearing Margin. In this case, securities may be submitted in lieu of cash as Clearing Margin.

5. A Non-Clearing Participant must, in the event a customer deposits a Customer Margin, submit its own money equivalent to or greater than the sum of money and market value of securities deposited by such customer as the Customer Margin, as the Clearing Margin to the Designated Clearing Participant. In this case, securities may be submitted in lieu of cash as Clearing Margin.
6. Notwithstanding the provisions of the preceding paragraph, a Non-Clearing Participant may deposit its own money equivalent to or greater than the sum of the money and market value of the securities deposited by such customer as the Customer Margin, as the Clearing Margin to the Designated Clearing Participant. In this case, securities may be deposited in lieu of cash as the Clearing Margin (hereinafter referred to as the "Non-Clearing Participant's Margin").
7. In cases prescribed from Paragraph 3 to the preceding paragraph, where the sum of money and the amount of the securities evaluated at substitution price (meaning the amount calculated by multiplying the market value two days prior to the date of deposit of the Clearing Margin by the rate prescribed in the Appendix of the JSCC Futures/Options Clearing Margin Rules (in the event such securities are US Treasury securities, the amount calculated by multiplying the market value by the rate prescribed in the Appendix of the JSCC Futures/Options Clearing Margin Rules and then converted into yen at the Telegraphic Transfer Buying rate of the Tokyo foreign exchange market as of the second day prior to the day of submission of the Clearing Margin)) submitted as Clearing Margin or deposited as Customer Margin by each customer to the Non-Clearing Participant does not meet the required Margin for such customer as prescribed in the JSCC Futures/Options Clearing Margin Rules, a Non-Clearing Participant must submit, as the Clearing Margin or deposit as a Non-Clearing Participant's Margin, its own money equivalent to or greater than the amount calculated by subtracting the Clearing Margin submitted or Customer Margin deposited by such customer from such required margin amount. In this case, securities may be submitted or deposited in lieu of cash as the Clearing Margin or Non-Clearing Participant's Margin.

**Rule 7. Special Rules concerning Submission of Clearing Margins by Broker**

Notwithstanding the provisions of Paragraph 3 of the preceding rule, a Non-Clearing Participant must, if the Clearing Margin is submitted to the

Non-Clearing Participant by a customer as an agent of an Applicant, submit the entire amount to the Designated Clearing Participant as an agent of such Applicant.

**Rule 8. Deadline for Submission or Deposit of the Clearing Margin**

Submission of the Clearing Margin or deposit of the Non-Clearing Participant's Margin as prescribed in the preceding three rules must be completed by the time designated by the Designated Clearing Participant within the deposit deadline prescribed by JSCC on the date (when such date falls on a non-business day, the following business day; the same shall apply hereinafter) following the final date when the sale or purchase of a Futures Contract or sale of an Options Contract was carried out (for security options contracts, on the date the sale was carried out), expressly stating which of the categories enumerated in the following items it falls under:

- (1) Non-Clearing Participant's Proprietary Clearing Margin;
- (2) Non-Clearing Participant's Clearing Margin for Customer Account (Direct Deposit);
- (3) Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker); or
- (4) Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit)

**Rule 9. Maintenance of Clearing Margin**

1. A Non-Clearing Participant must, in the event the sum of money and the amount of the securities evaluated at substitution price (meaning the amount calculated by multiplying the market value on the day before the date of calculation (to be moved up in order if the day falls on a holiday; the same shall apply hereinafter) by the rate prescribed in the Appendix of the JSCC Futures/Options Clearing Margin Rules (in the event such securities are US Treasury securities, the amount calculated by multiplying the market value by the rate prescribed in the Appendix of the JSCC Futures/Options Clearing Margin Rules and then converted into yen at the Telegraphic Transfer Buying rate of the Tokyo foreign exchange market as of the day before the date of calculation); the same shall apply to the following paragraph and Paragraph 4) submitted to the Designated Clearing Participant as its proprietary Clearing Margin does not meet the required Clearing Margin amount for its proprietary account as prescribed in the JSCC Futures/Options Clearing Margin Rules, make an additional submission of an amount equivalent to or greater than the balance due as its proprietary Clearing Margin to the Designated Clearing Participant, by the time designated by the Designated Clearing Participant within the deposit deadline prescribed by JSCC on the day following the date

- when such deficiency occurred. In this case, securities may be submitted in lieu of cash as the Clearing Margin.
2. A Non-Clearing Participant must, in the event the sum of the money and the amount of the securities evaluated at substitution price submitted to or deposited with the Designated Clearing Participant as Clearing Margin for Customer Account does not meet the required Clearing Margin for Customer Account amount, make additional submission or additional deposit of an amount equivalent to or greater than the balance due as Clearing Margin or Non-Clearing Participant's Margin to the Designated Clearing Participant, by the time designated by the Designated Clearing Participant within the deposit deadline prescribed by JSCC on the day following the date when such deficiency occurred. In these cases, securities may be submitted or deposited in lieu of cash as such Clearing Margin or Non-Clearing Participant's Margin.
  3. A Non-Clearing Participant must, in the event the sum of the money and the market value of the securities (meaning the amount evaluated at the market value on the day before the date of calculation (in the event such securities are US treasury securities, the amount converted into yen at the Telegraphic Transfer Buying rate of the Tokyo foreign exchange market as of the day before the date of calculation); the same shall apply hereinafter in this paragraph and the following rule) submitted as Clearing Margin to, or deposited as Non-Clearing Participant's Margin with, the Designated Clearing Participant pertaining to a customer as prescribed in Paragraphs 3 through 6 of Rule 6 or Rule 7, does not meet the sum of money and market value of securities submitted as Clearing Margin or deposited as Customer Margin by such customer, make additional submission or additional deposit of an amount equivalent to or greater than the balance due as Clearing Margin for Customer Account or Non-Clearing Participant's Margin to the Designated Clearing Participant by the time designated by the Designated Clearing Participant within the deposit deadline prescribed by JSCC on the day following the date when such deficiency occurred in accordance with the provisions of Paragraphs 3 through 6 of Rule 6 or Rule 7.
  4. A Non-Clearing Participant must, in the event the sum of the money and the amount of the securities evaluated at substitution price submitted as Clearing Margin or deposited as Customer Margin by each customer does not meet the required Margin amount for such customer as prescribed in JSCC Futures/Options Clearing Margin Rules, make additional submission or additional deposit of an amount equivalent to or greater than the balance due Clearing Margin for Customer Account or Non-Clearing Participant's Margin to the Designated Clearing Participant in accordance with Rule 6, Paragraph 7, by the time designated by the Designated Clearing Participant within the

deposit deadline prescribed by JSCC on the day following the date when such deficiency occurred.

**Rule 10. Right to Claim Return of Clearing Margins**

1. The right of the parties enumerated in each of the following items to claim the return of the Non-Clearing Participant's Clearing Margin for Customer Account deposited with JSCC pertaining to each customer of the Non-Clearing Participant shall be deemed to be possessed by the parties enumerated in each of the following items for the portion equivalent to the amount prescribed in the relevant item, up to the sum of the money and market value of securities deposited by such customer as Customer Margin (including the sum of money and market value of securities pertaining to the Clearing Margin submitted by such customer as Clearing Margin and to be deposited to JSCC; hereinafter referred to as the "Total Amount of the Non-Clearing Participant's Current Deposit for the Customer" in this paragraph), within the sum of money and market value of securities deposited to JSCC as Non-Clearing Participant's Clearing Margin for Customer Account (Direct Deposit) and sum of money and market value of securities deposited to JSCC as Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit):
  - (1) Customer  
The amount calculated by deducting the amount equivalent to the unfulfilled portion of the customer's obligation pertaining to the Futures/Options Contracts owed to the Non-Clearing Participant from Total Amount of the Non-Clearing Participant's Current Deposit for the Customer.
  - (2) Non-Clearing Participant  
The amount calculated by deducting the amount prescribed in the preceding item and the amount equivalent to the unfulfilled portion of obligation of such Non-Clearing Participant to pay or deliver to the Designated Clearing Participant pertaining to Futures/Options Contracts entrusted by such customer from Total Amount of the Non-Clearing Participant's Current Deposit for the Customer.
2. Notwithstanding the provisions of the preceding paragraph, in the event the customer of the Non-Clearing Participant is a Broker, the right of the parties listed in each of the following items to claim the return of the Non-Clearing Participant's Clearing Margin for Customer Account deposited to JSCC pertaining to each Applicant shall be deemed to be possessed by the parties listed in each of the following items for the portion equivalent to the amount prescribed in the relevant item, up to the sum of the money and market value of securities deposited by such Applicant as the Non-Clearing Participant's

Clearing Margin for Customer Account (Direct Deposit); the sum of money and market value of securities deposited by such Applicant as Brokerage Margin within the sum of money and market value of securities deposited to JSCC as Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker); and the sum of money and market value of securities deposited by such Applicant as Brokerage Margin or Customer Margin within the sum of money and market value of securities deposited to JSCC as Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit) (including the sum of money and market value of securities pertaining to the Clearing Margin submitted by such customer as Clearing Margin and to be deposited to JSCC; hereinafter referred to as the "Total Amount of the Non-Clearing Participant's Current Deposit for Applicant" in this paragraph).

(1) Applicant

The amount calculated by deducting the amount equivalent to the unfulfilled portion of the Applicant's obligation pertaining to the Futures/Options Contracts owed to the customer from Total Amount of the Non-Clearing Participant's Current Deposit for the Applicant.

(2) Customer

The amount calculated by deducting the amount prescribed in the preceding item and the amount equivalent to the unfulfilled portion of obligation of such customer to the Non-Clearing Participant pertaining to Futures/Options Contracts entrusted by such Applicant from Total Amount of the Non-Clearing Participant's Current Deposit for the Applicant.

(3) Non-Clearing Participant

The amount calculated by deducting the amount prescribed in the preceding two items and the amount equivalent to the unfulfilled portion of obligation of such Non-Clearing Participant to pay or deliver to the Designated Clearing Participant pertaining to Futures/Options Contracts entrusted by such Applicant from Total Amount of the Non-Clearing Participant's Current Deposit for the Applicant.

3. Notwithstanding the provisions of Paragraph 1, in the event the customer of the Non-Clearing Participant is a Broker, the right of the parties enumerated in each of the following items to claim the return of the Non-Clearing Participant's Clearing Margin for Customer Account deposited to JSCC pertaining to each Agency shall be deemed to be possessed by the parties enumerated in each of the following items for the portion equivalent to the amount prescribed in the relevant item, up to the amount deposited to JSCC over the sum of the money and market value of securities deposited by such Applicant as the Brokerage Margin within the sum of money and market value of securities deposited to JSCC as the

Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker) and the amount deposited to the Non-Clearing Participant as Customer Margin (including the sum of money and market value of securities pertaining to the Clearing Margin submitted by such customer as Clearing Margin and to be deposited to JSCC; hereinafter referred to as the "Total Amount of the Non-Clearing Participant's Current Deposit for Broker" in this paragraph) over the sum of money and market value of securities deposited by such Applicant as Brokerage Margin within the sum of money and market value of securities deposited to JSCC as the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit).

(1) Customer

The amount calculated by deducting the amount equivalent to the unfulfilled portion of the customer's obligation pertaining to the Futures/Options Contracts owed to the Non-Clearing Participant (excluding the amount deducted in accordance with the provisions of Item 2 of the preceding paragraph) from the Total Amount of the Non-Clearing Participant's Current Deposit for Broker.

(2) Non-Clearing Participant

The amount calculated by deducting the amount prescribed in the preceding item and the amount equivalent to the unfulfilled portion of obligation of such Non-Clearing Participant to pay or deliver to the Designated Clearing Participant pertaining to Futures/Options Contracts entrusted by such customer (excluding the amount deducted in accordance with the provisions of Item 3 of the preceding paragraph) from the Total Amount of the Non-Clearing Participant's Current Deposit for Broker.

4. The right of the Non-Clearing Participant to claim the return of the Non-Clearing Participant's Proprietary Clearing Margin and the Non-Clearing Participant's Clearing Margin for Customer Account deposited to JSCC pertaining to each Non-Clearing Participant shall be deemed to be possessed by the Non-Clearing Participant for the portion equivalent to the amount calculated by deducting the amount equivalent to the unfulfilled portion of obligation pertaining to all Futures/Options Contracts to be paid or delivered by such Non-Clearing Participant to the Designated Clearing Participant (excluding the amount deducted in accordance with the provisions of Item 2 of Paragraph 1, Item 3 of Paragraph 2, and Item 2 of the preceding paragraph) from the Non-Clearing Participant's Current Deposit for the Customer, up to the sum of money and market value of securities deposited with JSCC as the Non-Clearing Participant's Proprietary Clearing Margin (Direct Deposit), the sum of money and market value of securities submitted to the Designated Clearing Participant by the Non-Clearing Participant as Clearing Margin

within the sum of money and market value of securities deposited to JSCC as the Non-Clearing Participant's Proprietary Clearing Margin (Replacement Deposit), the amount deposited to JSCC over the sum of money and market value of securities deposited to the Non-Clearing Participant as Customer Margin (including the sum of money and market value of securities pertaining to the Clearing Margin submitted by such customer as Clearing Margin and to be deposited to JSCC) within the sum of money and market value of securities deposited to JSCC as the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit), and the amount deposited to the Designated Clearing Participant as the Non-Clearing Participant's Margin over the sum of money and market value of securities deposited to the Non-Clearing Participant as Customer Margin (including the sum of money and market value of securities pertaining to the Clearing Margin submitted by such customer as Clearing Margin and to be deposited to JSCC) within the sum of money and market value of securities deposited to JSCC as the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit) (hereinafter referred to as the "Non-Clearing Participant's Total Current Deposit" in this paragraph).

5. The right to claim return of the Clearing Margin shall be exercised in the manner prescribed in each of the following items:
  - (1) The right to claim the return held by the Non-Clearing Participant shall be exercised by the Designated Clearing Participant as the agent of such Non-Clearing Participant;
  - (2) The right to claim the return held by the Non-Clearing Participant's customer shall be exercised by the Non-Clearing Participant and its Designated Clearing Participant as the agent of such customer; and
  - (3) The right to claim the return held by the Applicant shall be exercised by the Non-Clearing Participant who was entrusted by the customer pertaining to the Futures/Options Contracts entrusted by the Applicant, and its Designated Clearing Participant, as the agent of such Applicant.
6. In the event a Non-Clearing Participant deposits the Non-Clearing Participant's Margin or submits Clearing Margin, and such Clearing Margin in the form of replacement deposit, if the Non-Clearing Participant exercises the right to claim return of all or part of such Clearing Margin pursuant to the provisions of the preceding paragraph, the Non-Clearing Participant's Margin deposited or the Clearing Margin submitted by such Non-Clearing Participant shall be returned.

#### **Rule 11. Replacement Securities**

1. Matters related to replacement securities prescribed in Rule 5, Paragraphs 4

through 7 of Rule 6, and Paragraphs 1 and 2 of Rule 9 shall be as prescribed in the Appendix of the JSCC Futures/Options Clearing Margin Rules.

2. In addition to the provisions of the preceding paragraph, treatment of submission or deposit of replacement securities shall be prescribed by OSE.

**Rule 12. Notification of Required Amount of Clearing Margin**

A Non-Clearing Participant shall notify its Designated Clearing Participant every trading day (every day in the case of the security options contract), the sum of required amounts of the Non-Clearing Participant's Proprietary Clearing Margin and the Non-Clearing Participant's Clearing Margin for Customer Account, by the time specified by such Designated Clearing Participant.

**Rule 13. Reporting Duty on Matters concerning Futures/Options Contracts Entrusted by a Customer**

With respect to the notification prescribed in the preceding rule, a Non-Clearing Participant must, in the event the Designated Clearing Party requests reporting on the positions held by the Non-Clearing Participant as agent of a customer and other matters concerning Futures/Options Contracts carried out as agent of a customer deemed necessary by JSCC for the purpose of reporting by the Designated Clearing Participant to JSCC, immediately submit a document stating such matters to the Designated Clearing Participant.

**SECTION 2  
TRANSFER OF POSITIONS**

**Rule 14. Transfer of Positions**

A Trading Participant may transfer unsettled contracts for its proprietary account (excluding those in a contract month remaining unsettled on or after the last trading day of such contract month and contracts for clearing on government bond futures subject to cross margining; the same shall apply hereinafter in this section) and unsettled contracts entrusted by customers to another Trading Participant (hereinafter referred to as "Transfer of Positions").

**Rule 15. Transfer of Clearing Participant's Positions**

Matters pertaining to transfer of Futures/Options Contracts of Clearing Participants shall be prescribed in the Business Rules established by JSCC.

**Rule 16. Procedures for Transfer of Non-Clearing Participant's Positions**

1. A Non-Clearing Participant must, when transferring a position of unsettled contracts, receive approval from its Designated Clearing Participant for such

- transfer, and notify the Designated Clearing Participant the number of unsettled contracts for each issue to be transferred and the name of the Trading Participant that will be the transferee, by the deadline specified by such Designated Clearing Participant.
2. In the case of the preceding paragraph, the Non-Clearing Participant must receive approval from the transferee Trading Participant concerning the transfer of such position, and notify the number of contracts and the name of the Designated Clearing Participant of the Non-Clearing Participant by the deadline specified by such transferee Trading Participant.
  3. In the case of the preceding paragraph, in the event the transferee Trading Participant is a Non-Clearing Participant, such transferee Trading Participant must receive approval from its Designated Clearing Participant concerning the transfer of such position, and notify the Designated Clearing Participant of the details of the notification received pursuant to the provisions of the same paragraph by the deadline specified by such Designated Clearing Participant.

**Rule 17. Completion of Transfer of Positions**

1. In the case of the preceding rule, the transfer of positions shall be deemed complete at the time prescribed by OSE.
2. Transfer of positions pertaining to Futures Contracts shall be carried out at the contract price or contract figure specified by OSE.

**SECTION 3**

**TRANSFER OF POSITIONS IN CASE OF SUSPENSION OF TRADING  
DUE TO INSOLVENCY**

**SUB-SECTION 1**

**TRANSFER OF POSITIONS IN CASE OF SUSPENSION OF TRADING  
DUE TO INSOLVENCY**

**Rule 18. Treatment of Unsettled Contracts for Insolvent Trading  
Participant's Proprietary Account**

1. OSE may, in cases where it suspends trading, etc. of a Trading Participant due to insolvency, have another Trading Participant designated by OSE effect resale, repurchase or exercise of options (including entrustment of the same; the same shall apply hereinafter) concerning unsettled contracts for the proprietary account of the Trading Participant subject to the suspension of trading due to insolvency, etc. (hereinafter referred to as the "Insolvent Trading Participant") (excluding those in a contract month remaining unsettled on or after the last trading day of such contract month; the same shall apply hereinafter in this

section).

2. In the case of the preceding paragraph, an entrustment agreement between such other Trading Participant designated by OSE and the Insolvent Trading Participant shall be deemed to have been executed.
3. Notwithstanding the provisions of Paragraph 1, treatment of unsettled contracts for the proprietary account of a Trading Participant who is a Clearing Participant that is subject to suspension of obligation assumption pursuant to the provisions of the Business Rules of JSCC (limited to cases where JSCC determines that the Clearing Participant is insolvent or is likely to become insolvent, or as necessary for other specific reasons) shall be in accordance with the JSCC Futures/Options Clearing Margin Rules.

**Rule 19. Treatment of Unsettled Contracts Entrusted by a Customer of Insolvent Trading Participant**

1. OSE may, in cases where it suspends trading, etc. of a Trading Participant due to insolvency, have the unsettled contracts entrusted by the customer of Insolvent Trading Participant (excluding such customers enumerated in each of the items of Rule 21, Paragraph 1; the same shall apply hereinafter through the following rule) transferred to another Trading Participant designated by OSE, or have such other Trading Participant designated by OSE effect resale, repurchase or exercise of options concerning such contracts.
2. In cases where OSE arranges to have the unsettled contracts transferred to another Trading Participant as prescribed in the preceding paragraph (hereinafter in this section and in Chapter 3, Section 3 referred to as the "Transfer of Position during Trading Suspensions, etc.") or have such other Trading Participant effect resale, repurchase or exercise of options concerning unsettled contracts, the Insolvent Trading Participant must, subsequent to the suspension of trading, etc., immediately notify its customers that it has received such suspension of trading, etc. due to insolvency, etc., and other matters deemed necessary by OSE.

**Rule 20. Transfer of Unsettled Contracts Entrusted to an Insolvent Trading Participant by a Customer**

1. The Transfer of Position during Trading Suspensions, etc. as prescribed in Paragraph 1 of the preceding rule shall be carried out in case the Insolvent Trading Participant's customer applies to the other Trading Participant designated by OSE for such transfer of positions, and such other Trading Participant submits a written certification of receipt of such application and acceptance of such transfer of position to OSE by the deadline prescribed by OSE.

2. In the case of the preceding paragraph, OSE may request the Insolvent Trading Participant to submit a document stating matters that OSE deems necessary in order to transfer a position in cases of trading suspension, etc., and shall deliver such document to such other Trading Participant to receive the transfer of such Transfer of Position during Trading Suspensions, etc..
3. In cases of a Transfer of Position during Trading Suspensions, etc. as prescribed in Paragraph 1 pertaining to Futures Contracts, the settlement price or settlement figure of each contract month on the trading day that closes on the day before the date of such Transfer of Position during Trading Suspensions, etc. (in cases of a transaction completed in the night session of the trading day that closes on the date of such Transfer of Position during Trading Suspensions, etc., such contract price or contract figure) shall be the contract figure for such unsettled contracts.
4. The resale, repurchase or exercise of options concerning unsettled contracts entrusted by a customer of an Insolvent Trading Participant as prescribed in Paragraph 1 of the preceding rule, shall be effected by another Trading Participant designated by OSE, in cases where the Insolvent Trading Participant submits a written certification that the Insolvent Trading Participant has received an instruction from its customer concerning resale, repurchase or exercise of options concerning the unsettled contract entrusted by such Insolvent Trading Participant's customer (excluding cases in the following paragraph), by the deadline specified by OSE.
5. OSE may, with respect to the unsettled contracts entrusted by the Insolvent Trading Participant's customer prescribed in Paragraph 1 of the preceding rule, have another Trading Participant designated by OSE effect the resale, repurchase or exercise of options, in case the document prescribed in Paragraph 1 or the preceding paragraph is not submitted by the deadline specified by OSE.
6. In the case of the preceding two paragraphs, an entrustment agreement between such other Trading Participant designated by OSE and the Insolvent Trading Participant shall be deemed to have been executed.

**Rule 21. Treatment of Unsettled Contracts Entrusted by a Customer, etc. whose Performance Obligations are Accelerated**

1. OSE may, in cases where it suspends trading due to insolvency, etc., have another Trading Participant designated by OSE effect resale, repurchase or exercise of options concerning unsettled contracts entrusted by an Insolvent Trading Participant's customer enumerated in each of the following items:
  - (1) A customer whose performance obligations against an Insolvent Trading Participant pertaining to Futures/Options Contracts have been accelerated;

- (2) A customer which is a subsidiary/parent company (meaning a subsidiary (see Note1 below) or a parent company (see Note2 below) that is a foreign company engaged in a business similar to the financial instruments business in a foreign country) of the Insolvent Trading Participant that OSE deems inappropriate to transfer the unsettled contracts to as prescribed in Rule 19, Paragraph 1.

(Note1) The term "subsidiary" means a subsidiary as prescribed in Article 2, Paragraph 3 of the Companies Act (Act No.86 of 2005) or such other company for which the Trading Participant holds fifty (50) percent or more of the voting rights (including voting rights concerning stocks deemed to possess voting rights pursuant to the provisions of Article 879, Paragraph 3 of the Companies Act, excluding voting rights of stocks that cannot exercise voting rights for all matters that may be resolved at the general shareholders' meeting; the same shall apply hereinafter) of the general shareholders of such other company.

(Note2) The term "parent company" means a parent company as prescribed in Article 2, Paragraph 4 of the Companies Act or such other company that holds fifty (50) percent or more of the general shareholders' voting rights of the Trading Participant.

2. In the case of Item 2 of the preceding paragraph, in the event a subsidiary of a Trading Participant is a parent company of other company, or other company is a parent company of a subsidiary of the Trading Participant, such other company shall be deemed to be a subsidiary of the Trading Participant.
3. In the case of Paragraph 1, Item 2, in the event another company is the parent company of a Trading Participant's parent company, or the parent company of a Trading Participant is a parent company of another company, such other company shall be deemed to be a parent company of the Trading Participant.
4. In the case of Paragraph 1, an entrustment agreement between such other Trading Participant designated by OSE and the Insolvent Trading Participant shall be deemed to have been executed.

**Rule 22. Measures against Non-Clearing Participant in Cases where the Designated Clearing Participant Receives Suspension of Obligation Assumption due to Insolvency, etc.**

1. The provisions of Paragraphs 1 and 2 of Rule 18, Rule 19, Rule 20 and the preceding rule (excluding Paragraph 1, Item 2) shall be applied mutatis mutandis to a case where a Designated Clearing Participant is suspended from entrustment of brokerage for clearing of securities, etc. pursuant to the provisions of Rule 48, Paragraph 1 of the Trading Participant Regulations due

- to its suspension of obligations assumption pursuant to provisions of the Business Rules of JSCC (limited to cases where JSCC deems such Clearing Participant to be insolvent or likely to become insolvent, or as necessary for other specific reasons). In such a case, "suspension of trading due to insolvency" shall be "suspension of entrustment of brokerage for clearing of securities, etc. due to suspension of obligation assumption based on JSCC's understanding that the Designated Clearing Participant is insolvent or is likely to become insolvent, or as necessary for other specific reasons," and "Insolvent Trading Participant" shall be "Non-Clearing Participant in cases where the Designated Clearing Participant receives suspension of obligation assumption due to JSCC's understanding that the Designated Clearing Participant is insolvent or is likely to become insolvent, or as necessary for other specific reasons."
2. In the event the unsettled contracts of a Non-Clearing Participant is to be transferred to another Trading Participant designated by OSE or another Trading Participant designated by OSE is to effect resale, repurchase or exercise of options concerning such unsettled contracts as a measure against a Non-Clearing Participant who receives suspension of entrustment of brokerage for clearing of securities, etc. pursuant to the provisions of Rule 48, Paragraph 1 of the Trading Participant Regulations due to its Designated Clearing Participant's suspension of obligation assumption pursuant to the provisions of the Business Rules of JSCC (limited to cases where JSCC deems such Designated Clearing Participant to be insolvent or likely to become insolvent, or as necessary for other specific reasons), the right of agency of the Designated Clearing Participant in Rule 10, Paragraph 5, Item 1 shall be deemed to be terminated.

## **SUB-SECTION 2**

### **TREATMENT OF INSOLVENT TRADING PARTICIPANT'S CLEARING MARGIN FOR CUSTOMER ACCOUNT**

#### **Rule 23. Treatment of Insolvent Clearing Participant's Clearing Margin for Customer Account**

In the event OSE transfers the position entrusted by a customer of an Insolvent Trading Participant that is a Clearing Participant to another Trading Participant pursuant to the provisions of Rule 19, Paragraph 1, the treatment of such Clearing Margin for Customer Account shall be in accordance with the JSCC Futures/Options Clearing Margin Rules.

#### **Rule 24. Treatment of Insolvent Non-Clearing Participant's Clearing Margin for Customer Account**

1. In the event OSE transfers the position during a trading suspension, etc.

- entrusted by a customer of an Insolvent Trading Participant that is a Non-Clearing Participant pursuant to the provisions of Rule 19, Paragraph 1 (the other Trading Participant who receives such transfer shall be referred to as the "Transferee Trading Participant during Trading Suspensions, etc." hereinafter in this sub-section), the Clearing Margin for Customer Account pertaining to such customer deposited to JSCC by such Insolvent Trading Participant who is a Non-Clearing Participant (limited to the portion of which such customer or its Applicant has the right to claim return pursuant to the provisions of the JSCC Futures/Options Clearing Margin Rules; the same shall apply in the following paragraph), shall be deemed to have been deposited to JSCC on the date of such transfer of position during a trading suspension, etc. by the Transferee Trading Participant during Trading Suspensions, etc. (in the event the Transferee Trading Participant during Trading Suspensions, etc. is a Non-Clearing Participant, such Transferee Trading Participant during Trading Suspensions, etc. and its Designated Clearing Participant) as its agent.
2. Among the Clearing Margin for Customer Account pertaining to such customer that is deemed to be deposited to JSCC pursuant to the provisions of the preceding paragraph, the amount deposited as the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit) shall be the lesser of the amounts prescribed in each of the following items:
    - (1) The amount equivalent to the sum of money and market value of securities that the customer deposited to the Insolvent Non-Clearing Participant as a Customer Margin; or
    - (2) The amount calculated by subtracting JSCC's cost of liquidation of the securities in lieu of cash margins deposited by the Insolvent Non-Clearing Participant as Clearing Margin (Replacement Deposit) for the Non-Clearing Participant's customer account from the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit) for the Non-Clearing Participant's customer account that the Insolvent Non-Clearing Participant had deposited to JSCC pursuant to the provisions of the JSCC Futures/Options Clearing Margin Rules, and pro rating such amount in accordance with the amount equivalent to the sum of money and market value of securities deposited by each customer to the Insolvent Non-Clearing Participant as Customer Margin.
  3. The provisions of the preceding two paragraphs shall be applied *mutatis mutandis* to cases where the Non-Clearing Participant is suspended from entrustment of brokerage for clearing of securities, etc. pursuant to the provisions of Rule 48, Paragraph 1 of the Trading Participant Regulations due to its Designated Clearing Participant's receipt of suspension of taking of obligations assumption pursuant to the provisions of the Business Rules of

JSCC (limited to cases where JSCC deems such Designated Clearing Participant to be insolvent or likely to become insolvent, or it is necessary for other specific reasons) In this case, "Rule 19, Paragraph 1" shall be "Rule 19, Paragraph 1 as applied mutatis mutandis in Rule 22, Paragraph 1," and "Insolvent Non-Clearing Trading Participant" shall be "Non-Clearing Participant that is suspended from entrustment of brokerage for clearing of securities, etc. due to its Designated Clearing Participant's receipt of suspension of obligation assumption by JSCC's determination that it is insolvent or is likely to become insolvent, or as necessary for other specific reasons."

**Rule 25. Liquidation of Clearing Margin for Replacement Deposits**

1. In the event OSE decides to subject the unsettled contracts entrusted by a customer of the Insolvent Non-Clearing Participant to a resale, repurchase or exercise of options pursuant to the provisions of Rule 19, Paragraph 1 or Rule 21, Paragraph 1, or to have the position during a trading suspension, etc. entrusted by a customer of an Insolvent Non-Clearing Participant transferred pursuant to the provisions of Rule 19, Paragraph 1, if JSCC decides to liquidate all or part of the securities that have been deposited as Non-Clearing Participant's Clearing Margin for customer account (Replacement Deposit) in a manner deemed appropriate by JSCC, an entrustment agreement between the Designated Clearing Participant of the Insolvent Non-Clearing Participant, Insolvent Non-Clearing Participant, its customer, and JSCC shall be deemed to have been executed.
2. In the event OSE decides to subject the unsettled contracts entrusted by a customer of the Non-Clearing Participant to a resale, repurchase or exercise of options pursuant to the provisions of Rule 19, Paragraph 1 or Rule 21, Paragraph 1, as applied mutatis mutandis in Rule 22, Paragraph 1, or to have the position during a trading suspension, etc. entrusted by a customer of a Non-Clearing Participant transferred, if JSCC decides to liquidate all or part of the securities that have been deposited as Non-Clearing Participant's Clearing Margin for customer account (Replacement Deposit) in a manner deemed appropriate by JSCC, an entrustment agreement between the Designated Clearing Participant of the Non-Clearing Participant, Non-Clearing Participant, its customer and JSCC shall be deemed to have been executed.
3. In the case of Paragraph 1, if the Broker is a customer prescribed in each of the items of Rule 21, Paragraph 1 and JSCC decides to liquidate all or part of the securities deposited as Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker) in a manner deemed appropriate by JSCC, an entrustment agreement between the Designated Clearing Participant of the Insolvent Non-Clearing Participant, Insolvent

Non-Clearing Participant, its customer and the customer's Applicant, and JSCC.

4. In the case of Paragraph 2, if the Broker is a customer prescribed in Rule 21, Paragraph 1, Item 1, as applied mutatis mutandis in Rule 22, Paragraph 1 and JSCC decides to liquidate all or part of the securities deposited as Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit by Broker) in a manner deemed appropriate by JSCC, an entrustment agreement between the Designated Clearing Participant of the Non-Clearing Participant, Non-Clearing Participant, its customer and the customer's Applicant, and JSCC.

**Rule 26. Special Regulations on Treatment of Clearing Margin for Replacement Deposits**

1. In the event JSCC liquidates securities pursuant to the provisions of Paragraph 1 or 2 of the preceding rule, the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit) shall be the amount of money and securities other than the securities subject to liquidation deposited to JSCC as the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit) by the Insolvent Non-Clearing Participant or the Non-Clearing Participant in Paragraph 2 of the preceding rule, and the amount calculated by subtracting the cost of liquidation from the money obtained from the liquidation.
2. In the event JSCC liquidates securities pursuant to the provisions of Paragraph 3 or 4 of the preceding rule, the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Margin by Broker) shall be the amount of money and securities other than the securities subject to liquidation deposited to JSCC as the Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Margin by Broker) by the Insolvent Non-Clearing Participant or the Non-Clearing Participant in Paragraph 4 of the preceding rule, and the amount calculated by subtracting the cost of liquidation from the money obtained from the liquidation.

**Rule 27. Special Regulations on Right to Claim Return of Clearing Margin for Customer Account**

1. A customer's right to claim return of Clearing Margin for customer account deemed to be deposited to JSCC pursuant to the provisions of Rule 24, Paragraph 1 (including mutatis mutandis application in Paragraph 3 of the same rule), shall be exercised by the Transferee Trading Participant during Trading Suspension, etc., prescribed in Paragraph 1 of the same rule as its

agent.

2. In the event OSE decides to subject the unsettled contracts entrusted by a customer of an Insolvent Non-Clearing Participant (in the case of mutatis mutandis application in Rule 22, Paragraph 1, referring to the Non-Clearing Participant whose Designated Clearing Participant is suspended from obligation assumption due to determination by JSCC that it is insolvent, is likely to become insolvent, or it is necessary due to other specific reasons) to a resale, repurchase or exercise of options pursuant to the provisions of Rule 19, Paragraph 1, or Rule 21, Paragraph 1 (including mutatis mutandis application in Rule 22, Paragraph 1), or to transfer the positions during a trading suspension, etc., entrusted by the Insolvent Non-Clearing Participant's customer pursuant to the provisions of Rule 19, Paragraph 1 (including mutatis mutandis application in Rule 22, Paragraph 1), the right to claim return of the Clearing Margin for customer account pertaining to a customer of an Insolvent Non-Clearing Participant (excluding customers whose position was subjected to Transfer of Position during Trading Suspensions, etc. pursuant to provisions of Rule 19, Paragraph 1 (including mutatis mutandis application in Rule 22, Paragraph 1) may be exercised directly against JSCC as prescribed in the JSCC Futures/Options Clearing Margin Rules. In this case, if the Clearing Margin for Customer Account pertaining to such customer is deposited as a Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit), the amount shall be limited to the lesser of the amounts prescribed in each item of Rule 24, Paragraph 2.

**Rule 28. Special Regulations on Right to Claim Return of Clearing Margin for Customer Account of Broker**

In the event OSE decides to subject the unsettled contracts entrusted by an Applicant of an Insolvent Non-Clearing Participant's customer to a resale, repurchase or exercise of options pursuant to the provisions of Rule 21, Paragraph 1 (including mutatis mutandis application in Rule 22, Paragraph 1), if the Broker is a customer prescribed in each of the items of Rule 21, Paragraph 1, the right to claim return held by such Applicant of the Broker may be exercised directly against JSCC as prescribed in the JSCC Futures/Options Clearing Margin Rules.

**SUB-SECTION 3  
MISCELLANEOUS PROVISIONS**

**Rule 29. Treatment of Other Matters concerning Transfer of Positions during Trading Suspensions, etc.**

In addition to the provisions of Rule 18 through the preceding rule, necessary

matters pertaining to Transfer of Positions during Trading Suspension, etc. shall be determined by OSE on a case-by-case basis.

**CHAPTER 3**  
**RULES PERTAINING TO SPECIAL REGULATIONS OF BROKERAGE**  
**AGREEMENT STANDARDS**

**SECTION 1**  
**MARGIN**

**Rule 30. Submission or Deposit of Margin**

1. A customer shall, in the event a sale or purchase of a Futures Contract or sale of an Options Contract entrusted by such customer is effected, and the Aggregate Margin Deposit (meaning the aggregate amount of the deposited margin as prescribed in Rule 33, Paragraph 1; the same shall apply hereinafter) is less than the Required Margin (meaning the customer's required margin amount as prescribed in the JSCC Futures/Options Clearing Margin Rules; the same shall apply hereinafter), or the money submitted or deposited as margin by the customer is less than the amount of cash to be paid by the customer (meaning the amount referred to in Paragraph 2 of the same rule when the amount to be paid or received is negative; the same shall apply hereinafter), submit or deposit as margin to the Trading Participant, the greater of the difference between the Aggregate Margin Deposit and the Required Margin (hereinafter referred to as the "Aggregate Margin Deficiency") or the difference between the amount of money submitted or deposited as margin by the customer and the cash to be paid by the customer (hereinafter referred to as the "Cash Deficiency"), by the deadline designated by the Trading Participant, on or before the day following the date such deficiency has occurred (in the event such customer is a non-resident, the second day after the day when such deficiency has occurred).
2. A customer may submit or deposit securities in lieu of cash as Margin; provided, however, that Margin equivalent to Cash Deficiency may not be deposited in securities in lieu of cash.
3. Matters concerning replacement securities prescribed in the preceding paragraph shall be as prescribed in the Appendix of the JSCC Futures/Options Clearing Margin Rules.
4. In cases where a customer submits or deposits the securities enumerated in each of the items below, such submission or deposit shall be made by book-entry transfer pursuant to the Act on Transfer of Bonds, Securities, etc. (Act No. 75 of 2001), and prior consent from the Trading Participant shall be

obtained when making such submission or deposit:

- (1) Stocks (except foreign stocks), preferred equity contribution securities issued by cooperative structured financial institutions, investment trust beneficiary certificates, beneficiary certificates of a beneficiary certificate-issuing trust, bonds (excluding bonds with subscription warrants) and convertible bonds
  - (2) Investment securities that are listed on a domestic financial instruments exchange
5. In cases where a customer is to submit or deposit foreign stocks, foreign investment trust beneficiary certificates, foreign investment securities, foreign stock depository receipts, or beneficiary certificates of a foreign beneficiary certificate-issuing trust, such submission or deposit shall be effected by book-entry transfer as prescribed in the "Business Regulations Relating to Depository and Book-Entry Transfer of Foreign Stocks Certificates, etc." specified by JASDEC, and prior consent from the Trading Participant shall be obtained when making such submission or deposit.
6. In cases where a customer is to submit or deposit US treasury securities, prior consent from the Trading Participant shall be obtained.

**Rule 31. Additional Submission or Deposit of Margin**

A Trading Participant must, in the event a customer incurs Aggregate Margin Deficiency or Cash Deficiency, require the customer to submit or deposit an amount equivalent to or greater than the greater of the two amounts as Margin by the deadline specified by the Trading Participant which shall be on or before the day following the day such deficiency has occurred (in the event such customer is a non-resident, the second day after the day when such deficiency has occurred). In this case, the Margin equivalent to Cash Deficiency may not be deposited in securities in lieu of cash.

**Rule 32. Classification of Margin**

1. Of the Margin submitted or deposited by a customer to a Trading Participant pursuant to the provisions of the preceding two rules, the money and securities other than the amount equivalent to the cash to be paid by the customer shall be deemed to have been submitted by the customer as Clearing Margin; provided, however, that, in the event consent (meaning consent as prescribed in Article 66 of the Cabinet Office Ordinance Relating to Financial Instruments Exchange, etc. (Cabinet Office Ordinance No. 54 of 2007)) from such customer is obtained, it may be deemed to have been deposited as Customer Margin.
2. In the event prescribed in the preceding paragraph, if the customer is a Broker, the classification as prescribed in each of the following items pertaining to the money or securities submitted or deposited by such customer as Clearing

Margin or Customer Margin must be clearly stated:

- (1) Money or securities submitted by an Applicant; or
- (2) The customer's own money or securities submitted or deposited in lieu of cash or securities deposited by an Applicant.

**Rule 33. Method of Computation of Aggregate Margin Deposit**

1. The Aggregate Margin Deposit shall be the amount obtained by adding or subtracting the amount of cash to be paid or received by a customer as prescribed in the following paragraph to or from the sum of money and securities evaluated at the substitution price (meaning an amount not exceeding such amount calculated by multiplying the market value on the day preceding the date of calculation by the rate prescribed in the Attachment of the JSCC Futures/Options Clearing Margin Rules (in the event such securities are US treasury securities, the amount calculated by multiplying the market value by the rate prescribed in the Appendix of the JSCC Futures/Options Clearing Margin Rules and then converted into yen at the Telegraphic Transfer Buying rate of the Tokyo foreign exchange market as of the day before the date of calculation)) submitted or deposited by the customer as Margin for the Futures/Options Contract Account.
2. The amount of cash to be paid or received by a customer shall be the amount of money equivalent to such amount calculated by adding or subtracting the sum of profit or loss at settlement of Futures Contracts (meaning, in the case of government bond futures contracts, the amount of money paid or received for settlement of government bond futures contracts prescribed in Rule 14-2, Paragraph 1 or 2) entrusted by the customer that is payable or receivable and the premiums for Options Contracts (for index options contracts, meaning the amount of money paid or received for settlement as prescribed in Rule 27 of the Brokerage Agreement Standards) that is payable or receivable to or from the implicit profit or loss calculated on a certain day prescribed in the following paragraph, and subtracting the amount of money that should be incurred by the customer that the Trading Participant deems necessary. In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Financial Instruments and Exchange Act (Act No.25 of 1948; hereinafter referred to as "Act") or where the average value (hereinafter referred to as "average price") of unit prices of transactions effected for the same issue on the same day may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc. (Cabinet Office Ordinance No.52 of 2007), the premiums may be calculated based on average prices as specified by OSE.

3. The amount of implicit profit or loss shall be the amount calculated by subtracting the sum of the amount equivalent to loss incurred due to volatility in the market of government bond futures contracts based on entrustment by the customer (see Note 1 below), the amount equivalent to loss incurred due to volatility in the market of index futures contracts based on entrustment by the customer (see Note 2 below), and the sum of payments which are made pursuant to the provisions of Rule 36 from the sum of the amount equivalent to profit gained from the volatility in the market of government bond futures contracts based on entrustment by the customer (see Note 3) and the amount equivalent to profit gained from the volatility in the market of index futures contracts based on entrustment by the customer (see Note 4). In cases where the delivery of documents on the conclusion of contracts to customers shall not be required under Article 45 of the Act or where average prices may be stated in the report on the outstanding balance of transactions pursuant to the provisions of Article 108, Paragraph 7 of the Cabinet Office Ordinance of Financial Instruments Business, etc., average prices may be used for the contract price or contract figure as specified by OSE.

(Note 1) "The amount equivalent to loss incurred due to volatility in the market of government bond futures contracts based on entrustment by the customer" means, for unsettled contracts of the customer (excluding those in a contract month remaining unsettled at closing of the last trading day of such contract month), the amount calculated by multiplying the difference between the contract price (or contract figure in the case of mini contracts; the same shall apply hereinafter) of the unsettled contract and the settlement price (or settlement figure in the case of mini contracts; the same shall apply hereinafter) on the trading day ending on the date of calculation by one-hundredth of JPY one hundred (100) million (or JPY one hundred thousand (100,000) in the case of mini contracts).

(Note 2) "The amount equivalent to loss incurred due to volatility in the market of index futures contracts based on entrustment by the customer" means, for unsettled contracts of the customer (excluding those in a contract month remaining unsettled at closing of the last trading day of such contract month), the amount calculated by multiplying the difference between the contract figures of the unsettled contract and the settlement figure on the trading day ending on the date of calculation by JPY ten thousand (10,000) for large contracts on TOPIX and contracts on the RNP Index, TOPIX Banks Index, Nikkei 225 VI,

TOPIX Dividend Index, and TOPIX Core30 Dividend Index; JPY one thousand (1,000) for large contracts on Nikkei Average, mini contracts on TOPIX, contracts on TSE Mothers Index, TOPIX Core30, TSE REIT Index, and Nikkei 225 Dividend Index; and JPY one hundred (100) for mini contracts on Nikkei Average and contracts on JPX-Nikkei Index 400, DJIA, Nifty 50, TAIEX and FTSE China 50 Index.

(Note 3) "The amount equivalent to profit gained from the volatility in the market of government bond futures contracts based on entrustment from the customer" means, for unsettled contracts of the customer (excluding those in a contract month remaining unsettled at closing of the last trading day of such contract month), the amount calculated by multiplying the difference between the contract price of the unsettled contract and the settlement price on the trading day ending on the date of calculation by one-hundredth of JPY one hundred (100) million (or JPY one hundred thousand (100,000) in the case of mini contracts).

(Note 4) "The amount equivalent to profit gained from the volatility in the market of index futures contracts based on entrustment by the customer" means, for unsettled contracts of the customer (excluding those in a contract month remaining unsettled at closing of the last trading day of such contract month), the amount calculated by multiplying the difference between the contract figures of the unsettled contract and the settlement figure on the trading day ending on the date of calculation by; JPY ten thousand (10,000) for large contracts on TOPIX and contracts on the RNP Index, TOPIX Banks Index, Nikkei 225 VI, TOPIX Dividend Index, and TOPIX Core30 Dividend Index; JPY one thousand (1,000) for large contracts on Nikkei Average, mini contracts on TOPIX, and contracts on TSE Mothers Index, TOPIX Core30, TSE REIT Index, and Nikkei Stock Average Dividend Index; and JPY one hundred (100) for mini contracts on Nikkei Average and contracts on JPX-Nikkei Index 400, DJIA, Nifty 50, TAIEX and FTSE China 50 Index.

#### **Rule 34. Right to Claim Return of Clearing Margin**

1. A customer shall, in cases prescribed in each of the following items, have the right to claim return of the amount equivalent to the amount calculated by

subtracting the unfulfilled portion of the obligation pertaining to Futures/Options Contracts owed by the customer to the Trading Participant (hereinafter referred to as the "Customer's Unfulfilled Obligations" in this rule) from the Clearing Margin as prescribed in each such item:

- (1) If the Clearing Margin submitted by the customer is directly deposited:  
Of the directly deposited Clearing Margin (meaning the Clearing Participant's Clearing Margin for Customer Account (Direct Deposit) or Non-Clearing Participant's Clearing Margin for Customer Account (Direct Deposit)) for such customer, the amount prescribed in (a) or (b) below:
  - (a) If the customer has deposited money as Clearing Margin, the amount of such money; or
  - (b) If the customer has deposited securities in lieu of cash as Clearing Margin, such securities.
- (2) If the customer deposits Customer Margin or submits Clearing Margin, and a replacement deposit of Clearing Margin is made:  
Of the Clearing Margin for replacement deposits (meaning the Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit) or Non-Clearing Participant's Clearing Margin for Customer Account (Replacement Deposit)); the same shall apply hereinafter) for such customer, the amount prescribed in (a) or (b) below:
  - (a) If money is deposited as Clearing Margin for replacement deposit of such customer, the amount of money equivalent to such Customer Margin deposited or Clearing Margin submitted by the customer; or
  - (b) If securities are deposited in lieu of cash as Clearing Margin for replacement deposits of such customer, the amount of securities equivalent to such Customer Margin deposited or Clearing Margin submitted by the customer.
2. The right to claim return of Clearing Margin held by the customer pursuant to the provisions of the preceding paragraph shall be exercised by the Trading Participant (in the event such Trading Participant is a Non-Clearing Participant, such Non-Clearing Participant and its Designated Clearing Participant) as its agent.
3. In the event the Trading Participant is a Clearing Participant, the right to claim return of the portion of the Clearing Margin equivalent to the Customer's Unfulfilled Obligations prescribed in Paragraph 1 (excluding the amount equivalent to the unfulfilled portion of the obligations pertaining to Futures/Options Contracts entrusted by the customer that such Clearing Participant is to pay or deliver to JSCC) shall be held by such Clearing

Participant.

4. In the event the Trading Participant is a Non-Clearing Participant, the right to claim return of the portion of the Clearing Margin equivalent to the Customer's Unfulfilled Obligations prescribed in Paragraph 1 shall be held by such Non-Clearing Participant for the portion excluding the unfulfilled obligation of the Futures/Options Contracts entrusted by the customer that such Non-Clearing Participant is to pay or deliver to its Designated Clearing Participant, and by its Designated Clearing Participant for such unfulfilled portion.

**Rule 35. Restriction on Withdrawal of Margin**

1. A Trading Participant must not permit withdrawal of money or securities submitted or deposited by a customer as Margin; provided, however, that this shall not apply in cases where any of the following items is applicable for the amount of money or securities not exceeding the amount prescribed in each such item:
  - (1) Where the aggregate amount of the customer's Margin Deposit at the time of withdrawal exceeds the Required Margin, securities equivalent to the amount calculated by dividing such excess by the rate prescribed in the Appendix of the JSCC Futures/Options Clearing Margin Rules (for US treasury securities, the amount calculated by dividing such excess converted to US dollar using the Telegraphic Transfer Selling rate in the Tokyo foreign exchange market by the rate prescribed in the Appendix of the JSCC Futures/Options Clearing Margin Rules; the same shall apply in the following item), or the amount of money equivalent to whichever is smaller of such excess amount or excess cash (meaning the excess amount where the amount of money submitted or deposited as Margin exceeds the cash payable by such customer; the same shall apply hereinafter);
  - (2) Where the securities submitted or deposited as Margin by such customer is to be replaced with money or other securities, securities equivalent to the amount calculated by dividing such amount of money or other securities (meaning the amount evaluated at the Replacement Price as prescribed in Rule 33, Paragraph 1; the same shall apply hereinafter in this paragraph) by the rate prescribed in the Appendix of the JSCC Futures/Options Clearing Margin Rules.
  - (3) Where the amount of money equivalent to the excess cash portion of the money submitted or deposited as Margin by the customer is to be replaced with securities, the amount of money equivalent to the amount of such securities.
2. Notwithstanding the provisions of the preceding paragraph, a Trading

Participant may permit withdrawal of money or securities prescribed in any of the following items where such item is applicable.

- (1) If the customer is seeking to settle the purchase or sale of underlying securities effected by exercise of security options by delivery of money submitted or deposited by such customer as Margin, where the Aggregated Margin Deposit (excluding the amount of money pertaining to such delivery) exceeds the Required Margin (excluding the amount pertaining to such exercise of options), and excess cash remains subsequent to withdrawal of money for such delivery;  
The money pertaining to such delivery;
- (2) If the customer is seeking to settle the purchase and sale of underlying securities effected by exercise of security options by delivery of such security submitted or deposited by such customer as Margin, where the Aggregated Margin Deposit (excluding the amount equivalent to the securities pertaining to such delivery) exceeds the Required Margin (excluding the amount pertaining to such exercise of options), the underlying security pertaining to such delivery.

#### **Rule 36. Payout of Implicit Profits**

1. A Trading Participant may, upon request from a customer, pay out cash equivalent to the amount of implicit profit for the account of the customer.
2. The amount of payout referred to in the preceding paragraph shall be limited to the amount of such excess when the Aggregate Margin Deposit of the customer exceeds the Required Margin; provided, however, that this shall not apply to each of the following items:
  - (1) Where the customer is to submit or deposit such amount of payout as Margin to the Trading Participant; or
  - (2) Where the customer is to settle purchase and sale of underlying securities effected by exercise of security options by delivery of such amount of payout, and the Aggregate Margin Deposit of the customer (excluding such amount to be delivered) exceeds the Required Margin (excluding such amount pertaining to the exercise of the option).

## **SECTION 2 TRANSFER OF POSITIONS**

#### **Rule 37. Procedures for Transfer of Customer's Positions**

1. A customer must, if it is to entrust transfer of positions of unsettled contracts, obtain prior approvals concerning such entrustment of transfer of positions from the transferor Trading Participant with the current Futures/Options

- Trading Account and the transferee Trading Participant.
2. In the case of the preceding paragraph, such customer must report the number of unsettled contracts to be transferred for each issue, and the name of the transferee Trading Participant to the transferor Trading Participant, by the deadline specified by the transferor Trading Participant, and report such number and the name of the transferor Trading Participant to the transferee Trading Participant by the deadline specified by the transferee Trading Participant.
  3. The transfer of positions pertaining to Futures Contracts shall be conducted using the settlement figure for each contract month on the trading day preceding the trading day of the position transfer as the contract figure pertaining to such unsettled contracts.
  4. When the transfer of positions have been effected, it shall be deemed that the entrustment of such unsettled contracts between the customer and the transferor Trading Participant has terminated, and the entrustment of such unsettled contracts between the customer and the transferee Trading Participant has become newly effective, simultaneously.

### SECTION 3

#### TRANSFER OF POSITION IN CASE OF SUSPENSION OF TRADING DUE TO INSOLVENCY

##### **Rule 38. Notice by Insolvent Trading Participant**

1. In the event OSE decides to transfer positions during a trading suspension, etc. to another Trading Participant or to have another Trading Participant resale, repurchase or exercise options pertaining to unsettled contracts pursuant to the provisions of Rule 18, Paragraph 1 or Rule 19, Paragraph 1 (including mutatis mutandis application in Rule 22, Paragraph 1), the Insolvent Trading Participant (including Non-Clearing Participant whose Designated Clearing Participant is suspended from obligations assumption due to determination by JSCC that it is insolvent, is likely to become insolvent, or it is necessary due to other specific reasons) must, subsequent to receiving such suspension of trading due to insolvency (including suspension of entrustment of brokerage for clearing of securities, etc. for Non-Clearing Participant due to its Designated Clearing Participant's suspension of obligations assumption pursuant to the determination by JSCC that it is insolvent, is likely to become insolvent, or as necessary due to other specific reasons), immediately notify the customer of the fact and other matters deemed necessary by OSE.
2. In the event the customer who receives the notice prescribed in the preceding paragraph is a Broker, such customer must notify its Applicant of matters in

accordance with such notice.

**Rule 39. Procedures pertaining to Transfer of Position in Insolvency for Customers**

1. A customer (excluding customers prescribed in each of the items of Rule 21, Paragraph 1; the same shall apply hereinafter in this rule and the following rule) must, if it receives the notice prescribed in the provisions of Paragraph 1 of the preceding rule, and wishes for a Transfer of Position during Trading Suspensions, etc., apply to one of the other Trading Participants designated by OSE for the Transfer of Position during Trading Suspensions, etc., and obtain its approval by the deadline specified by OSE.
2. A customer who obtains approval for Transfer of Position during Trading Suspensions, etc. prescribed in the preceding paragraph shall open a Futures/Options Trading Account with the Transferee Trading Participant pursuant to the provisions of the Brokerage Agreement Standards; provided, however, that this shall not apply if the customer has already opened a Futures/Options Trading Account with the Transferee Trading Participant at the time of such trading suspension, etc.

**Rule 40. Procedures Pertaining to Resale, Repurchase or Exercise of Options for Customer**

A customer shall, if it receives the notice prescribed in Rule 38, Paragraph 1 and wishes for a resale, repurchase or exercise of options pertaining to unsettled contracts, instruct the Insolvent Trading Participant (Non-Clearing Participant in the event the Designated Clearing Participant is suspended from obligation assumption due to determination by JSCC that it is insolvent, is likely to become insolvent, or as necessary due to other specific reasons) of the fact by the deadline specified by OSE.

**Rule 41. Special Regulations on Margin**

1. In the event the Transfer of Position during Trading Suspensions, etc. as prescribed in Rule 39, Paragraph 1 has been effected, a customer shall be deemed to have submitted the Clearing Margin for Customer Account for the customer (limited to the portion of which the customer or its Applicant has the right to claim return, as prescribed in the JSCC Futures/Options Clearing Margin Rules; the same shall apply in the following paragraph) deposited to JSCC by the Insolvent Trading Participant (Non-Clearing Participant in the event the Designated Clearing Participant is suspended from obligation assumption due to determination by JSCC that it is insolvent, is likely to

become insolvent, or as necessary due to other specific reasons; the same shall apply hereinafter in this rule) to the transferee Trading Participant during the trading suspension, etc. as Clearing Margin.

2. In cases of the preceding paragraph, for Clearing Margin deposited as Replacement Deposit for such customer, the amounts prescribed in each of the following item, whichever is smaller, shall be deemed to have been submitted as Clearing Margin.
  - (1) The amount equivalent to the sum of money and market value of securities deposited by the customer to Insolvent Trading Participant as Customer Margin (including the sum of money and market value of securities pertaining to the Clearing Margin submitted by such customer to the Insolvent Trading Participant as Clearing Margin and to be deposited to JSCC); or
  - (2) The amount calculated by subtracting the cost of liquidation required by JSCC for liquidation of the securities deposited by the Insolvent Trading Participant as Clearing Margin for Replacement Deposits from the Clearing Margin for Replacement Deposits deposited to JSCC by the Insolvent Trading Participant, and pro rata by the amount equivalent to the sum of money and market value of securities deposited by each customer to the Insolvent Trading Participant as Customer Margin (including the sum of money and market value of securities pertaining to the Clearing Margin submitted by such customer to the Insolvent Trading Participant as Clearing Margin and to be deposited to JSCC).

#### **Rule 42. Special Regulations on Return of Margin**

Where the Transfer of Position during Trading Suspensions, etc. prescribed in Rule 39, Paragraph 1 has been effected, and a claim for return of Clearing Margin as prescribed in Paragraph 2 of the preceding rule is received from the customer on or after such date, the Transferee Trading Participant during trading suspensions, etc. shall, return the same in cash.

#### **Rule 43. Special Regulations on Return of Clearing Margin**

A customer may, in the event the Transfer of Position during Trading Suspensions, etc. as prescribed in Rule 39, Paragraph 1 has not been effected, exercise the right to claim return directly against JSCC, as prescribed in the JSCC Futures/Options Clearing Margin Rules.

### **SECTION 3 CONTRACT BETWEEN CUSTOMER AND APPLICANT**

#### **Rule 44. Contract between Customer and Applicant**

If a customer is a Broker, the customer shall execute a contract with its Applicant, in accordance with the matters prescribed in these rules.

## **CHAPTER 4 MISCELLANEOUS PROVISIONS**

### **Rule 45. Application to Brokerage for Clearing of Securities, etc.**

With respect to commissioning of entrustment of brokerage for clearing of securities, etc. pertaining to Futures/Options Contracts, the provisions of Rule 3, Chapter 2, and Chapter 3 shall be applied deeming the Trading Participant who entrusted brokerage for clearing of securities, etc. shall be deemed to be the person acting as an agent for such Futures/Options Contracts.

### **Rule 46. Determination of Necessary Matters concerning Margin and Transfer of Unsettled Contracts**

OSE may prescribe, in addition to matters prescribed in these Rules, relevant handling of margin and transfer of unsettled contracts pertaining to Futures/Options Contracts in its rules where necessary.

**Rules on Regulatory Measures Concerning Market Transactions of  
Derivatives or their Brokerage**  
(As of March 24, 2014)

Osaka Exchange, Inc.

**Rule 1. Regulatory Measures Concerning Market Transactions of Derivatives or their Brokerage**

Regulatory measures that OSE may take concerning market transactions of derivatives or their brokerage pursuant to the provisions of Rule 47 of the Business Regulations shall be those enumerated in each of the following items:

- (1) Matters enumerated in the following sub-items regarding Margin or Clearing Margin pertaining to futures and options transactions (meaning futures and options transactions prescribed in Rule 31, Paragraph 1 of the Clearing and Settlement Regulations; the same shall apply hereinafter):
  - a. Moving up the day and time of submitting or depositing Margin or Clearing Margin;
  - b. Increasing the amount of Margin or Clearing Margin or restriction on substitution of such Clearing Margin with securities;
  - c. Lowering the ratio that should be multiplied by market value in the calculation of substitution value where Margin or Clearing Margin is substituted with securities.
- (2) Restriction on or prohibition of a sale or purchase of futures/options contract;
- (3) Restriction on the total purchase or sale open interests in futures/options contract;
- (4) Matters enumerated in the following sub-items regarding Margin or Clearing Margin for exchange FX trading:
  - a. Moving up the day and time of submitting or depositing Margin or Clearing Margin;
  - b. Increasing the amount of Margin or Clearing Margin or restriction on substitution of such Clearing Margin with securities;
  - c. Lowering the ratio that should be multiplied by market value in the calculation of substitution value where Margin or Clearing Margin is substituted with securities.
- (5) Restriction on or prohibition of a sale or purchase of exchange FX trading contract
- (6) Restriction on the total purchase or sale open interests in exchange FX trading contract
- (7) Receiving deposit of amount of money equivalent to trading value pertaining to purchase of options contract before the settlement day;
- (8) Restriction on or prohibition of sales or purchases for proprietary account of Trading Participants (including sales or purchases under a discretionary investment contract (meaning the discretionary investment contract referred to in Article 16, Paragraph 1, Item 8, Sub-item (b) of the Cabinet Office Ordinance on Definitions under Article 2 of the Financial Instruments and Exchange Act (Ordinance of the Ministry of Finance No. 14 of 1993)));
- (9) Other necessary measures to maintain the order of the market

**Rule 2. Application to Brokerage for Clearing of Securities, etc.**

These Rules shall apply to the brokerage for clearing of securities, etc. pertaining to market transactions of derivatives by regarding a Trading Participant that entrusts the brokerage for clearing of securities, etc. as an entity that effects such market transactions of derivatives.

(Notes)

The definitions of terms in these Rules shall be as prescribed in the following rules, etc.

- (1) Business Regulations
- (2) Special Rules for Business Regulations and Brokerage Agreement Standards Relating to Exchange Foreign Exchange Margin Trading
- (3) Rules on Margin and Transfer of Unsettled Contracts Pertaining to Futures/Options Contract
- (4) Rules for the Transfer of Margins and Unsettled Positions for Exchange Foreign Exchange Margin Trading

## **Rules Regarding Trading Participant Fees, etc.**

(As of July 19, 2016)

Osaka Exchange, Inc.

### **Rule 1. Purpose**

These Rules shall prescribe necessary matters concerning the amount of basic fees, trading participant fees including trading fees, trading participation fees and trading participant security money pursuant to Rule 9, Paragraph 1, Rule 32, Paragraph 4, and Rule 33-2, Paragraph 4 of the Trading Participant Regulations.

### **Rule 2. Trading Participant Fees**

1. Trading participant fees prescribed in Rule 9, Paragraph 1 of the Trading Participant Regulations mean basic fees, trading fees, derivatives trading system connection fees, give-up fees, cancellation fees, and position transfer fees.
2. The amount of basic fees (monthly) shall be the amount specified in the following items in accordance with the classification of Trading Participants enumerated in each of the following items. Basic fees for the month containing the day on which trading qualification of a Trading Participant is obtained or waived shall be calculated pro rata on a daily basis.
  - (1) A Futures, etc. Trading Participant:  
JPY 600,000  
However, where a Futures, etc. Trading Participant falls under cases enumerated a. or b., the amount specified in a. or b. shall be subtracted.
    - a. Where a Futures, etc. Trading Participant did not place orders (including correction and cancellation orders; the same shall apply hereinafter) for government bond futures or government bond futures options in the OSE market in the previous month:  
JPY 200,000
    - b. Where a Futures, etc. Trading Participant did not place orders for index futures, security options, or index options in the OSE market in the previous month:  
JPY 200,000
  - (2) A Government Bond Futures, etc. Trading Participant:  
JPY 200,000
  - (3) An FX Trading Participant:  
JPY 30,000
3. The amount of trading fees for transactions enumerated in the following items on the OSE markets for each Trading Participant shall be the aggregated amount calculated by multiplying

the trading volumes stipulated in each item (hereinafter referred to as "Basis for Calculation of Trading Fee Rates") by the trading fee rate, and the basis for calculation of trading fee rates and trading fee rates relating to the transactions in Items 1 to 6 shall be as set forth in Appendix 1 per transaction.

- (1) Government bond futures transactions (including transactions effected by exercise of options or allocation of such exercise referred to in Item 4, but excluding transactions effected by position transfer (meaning the position transfer prescribed in Rule 33-4, Paragraph 2 of the Business Regulations; the same shall apply hereinafter))

Trading volume and the amount of delivery/payment settlement

- (2) Index futures transactions (excluding those effected by position transfer)

Trading volume

- (3) Security options transactions

Trading volume

- (4) Government bond futures options transactions

Trading volume

- (5) Index options transactions

Trading value or trading volume

- (6) Exchange FX transaction

Trading volume

4. The amount of derivatives trading system connection fees shall be the amount defined in accordance with the classification of the types of trading system components used by each Trading Participant with respect to market transactions of derivatives on the OSE markets of each Trading Participant, and such classification and amounts shall be as stipulated in Appendix 3.

5. Give-up fees shall be paid by the Clearing Execution Trading Participant (meaning the Clearing Execution Trading Participant prescribed in Rule 42, Paragraph 2 of the Business Regulations), and such amount shall be the amount obtained by multiplying the volume of sales or purchases pertaining to the give-up effected pursuant to the provision of the same paragraph by the amount enumerated in the following items in accordance with the classification of each such item.

- (1) Government bond futures transactions

The amounts specified in the following a. and b. in accordance with the classification of government bond futures contracts enumerated in a. and b.

a. Large contract: JPY 5

b. Mini contract: JPY 1

- (2) Index futures transactions

The amounts specified in the following a. through c. in accordance with the classification of underlying indices enumerated in a. through c.

- a. Nikkei Average and TOPIX
    - (a) Large contract: JPY 5
    - (b) Mini contract: JPY 1
  - b. RNP Index, TOPIX Banks Index, DJIA, Nifty 50, TAIEX, FTSE China 50 Index and Nikkei 225 VI: JPY 5
  - c. JPX-Nikkei Index 400, TSE Mothers Index, TOPIX Core30, TSE REIT Index, Nikkei Average Dividend Index, TOPIX Dividend Index and TOPIX Core30 Dividend Index: JPY 1
- (3) Security options transactions: JPY 5
  - (4) Government bond futures options transactions: JPY 5
  - (5) Index options transactions: JPY 5
6. Cancellation fees, in cases where a transaction in market derivatives contracts is effected due to an erroneous order, shall be paid at the time of cancellation of the transaction in market derivatives contracts, by the Trading Participant that have placed such erroneous order, pursuant to Rule 25, Paragraph 1 of the Business Regulations, (including that the cases where Rule 10, Paragraph 1 of the Special Rules for the Business Regulations and the Brokerage Agreement Standards relating to the J-NET Market shall be applied mutatis mutandis) or Rule 15, Paragraph 1 of the Special Rules of the Business Regulations relating to an FX Transaction on the Exchange and the Brokerage Agreement Standards (hereinafter referred to as "Special Rules for the Exchange FX Transaction"), and said amount shall be the amount calculated by multiplying the basis for calculation of trading fees pertaining to the cancelled transactions (limited to the transactions effected due to an erroneous order) by the rate or amount specified in the following relevant Item in accordance with the classification of the trading enumerated in each of the following items; provided, however, that if said amount is less than JPY 100,000 the cancellation fee shall be JPY 100,000.

(1) Government bond futures transactions

The amounts specified in the following a. and b. in accordance with the classification of government bond futures contracts enumerated in a. and b.

- a. Large contract: JPY 95
- b. Mini contract: JPY 20

(2) Index futures transactions

The amounts specified in the following a. through c. in accordance with the classification of underlying indices enumerated in a. through g.

- a. Nikkei Average

- (a) Large contract: JPY 110
    - (b) Mini contract: JPY 11
  - b. TOPIX
    - (a) Large contract: JPY 55
    - (b) Mini contract: JPY 7
  - c. RNP Index: JPY 9
  - d. TOPIX Banks Index: JPY 55
  - e. JPX-Nikkei Index 400, TSE Mothers Index, TOPIX Core30 and TSE REIT Index: JPY 7
  - f. DJIA, Nifty 50, TAIEX, FTSE China 50 Index, Nikkei Average Dividend Index, TOPIX Dividend Index and TOPIX Core30 Dividend Index: JPY 40
  - g. Nikkei 225 VI: JPY 80
- (3) Security options transactions: JPY 10
- (4) Government bond futures options transactions: JPY 40
- (5) Index options transactions

The rate and amount specified in the following a. and b. in accordance with the classification of the index options contracts enumerated in such a. and b.

- a. Nikkei Average options transactions
    - (a) Regular contracts: 5.0/10,000
    - (b) Weekly contracts: JPY 40
  - b. TOPIX options and JPX-Nikkei Index 400 options transactions: JPY 40
- (6) Exchange FX transactions: JPY 20
7. Position transfer fees shall be the amount specified in accordance with the quantity of trading units pertaining to sales and purchases of government bond futures and index futures on the OSE markets which were effected by each Trading Participant by position transfers, and such amount shall be a sum of the amounts specified in each of the following items.
- (1) Government bond futures transactions
 

The amount obtained by multiplying the quantity of trading units by JPY 5
  - (2) Index futures transactions
 

The amount obtained by multiplying the quantity of trading units by JPY 5
8. The date of payment to OSE for the trading participant fees specified in Paragraph 1 shall be the 20th of each month (to be moved down in order if such date falls on a non-business day (meaning a non-business day prescribed in Rule 19, Paragraph 1 of the Business Regulations, including extraordinary non-business days prescribed in Paragraph 2 of the same rule)), and payment relating to basic fees shall be made for this month and payment relating to trading fees, give-up fees, cancellation fees, and position transfer fees shall be made for the previous month.

9. Notwithstanding the provisions of the preceding paragraph, payment relating to derivatives trading system connection fees shall be made as prescribed by OSE.

**Rule 3. Discount of Trading Fees for Market Makers**

Notwithstanding the provisions of Paragraph 3 of the preceding rule, OSE shall discount or rebate trading fees as separately prescribed by OSE or pay an amount of incentives prescribed by OSE pursuant to Rule 9-2 of the Trading Participant Regulations for Trading Participants designated as a market maker (meaning designation of a market maker prescribed in Rule 18, Paragraph 2 of the Enforcement Rules for Business Regulations).

**Rule 3-2. Incentives to Liquidity Providers**

OSE shall pay an amount of incentives as separately prescribed by OSE pursuant to Rule 9, Paragraph 2 of the Trading Participant Regulations to Trading Participants designated as liquidity providers (meaning designation of a liquidity provider prescribed in Rule 8-2, Paragraph 1 of the Enforcement Rules for Special Rules for Business Regulations and Brokerage Agreement Standards Relating to Exchange Foreign Exchange Margin Trading).

**Rule 4. Change in Trading Fees, etc.**

Notwithstanding the provisions of the preceding three rules, OSE may, when it considers necessary for the invigoration of the market, change the trading fee rates enumerated in Rule 2, Paragraph 3 or rebate trading fees, or pay incentives pursuant to Rule 9, Paragraph 2 of the Trading Participant Regulations for a certain period of time as separately prescribed by OSE. In this case, notification to that effect must be given to Trading Participants.

**Rule 5. Amount of Trading Participation Fees**

1. The amount of transaction participation fees prescribed in Rule 32, Paragraph 4 of the Trading Participant Regulations shall be the amount specified in each of the following items in accordance with the classification of the obtained trading qualifications enumerated in each such item (in cases where an Authorized Transaction-at-Exchange Operator is obtaining a trading qualification, the amount obtained by multiplying the amount stipulated in said item by 1/10; the same shall apply in the following paragraph).
  - (1) When obtaining a Futures, etc. Trading Qualification (including when obtaining an FX Trading Qualification at the same time)  
JPY 50 million
  - (2) When obtaining a Government Bond Futures, etc. Trading Qualification (including when obtaining an FX Trading Qualification at the same time)

JPY 30 million

- (3) When obtaining an FX Trading Qualification (except the cases enumerated in the preceding two items)

JPY 3 million

2. Notwithstanding the provisions of the preceding paragraph, in the cases enumerated in the following items, the trading participation fees pertaining to an obtained trading qualification shall be the amounts specified in each such item:

- (1) Where a Government Bond Futures, etc. Trading Participant waives a Government Bond Futures, etc. Trading Qualification and obtains a Futures, etc. Trading Qualification at the same time:

JPY 20 million

- (2) Where an FX Trading Participant obtains a Futures, etc., Trading Qualification:

JPY 47 million

- (3) Where an FX Trading Participant obtains a Government Bond Futures, etc., Trading Qualification:

JPY 27 million

3. Notwithstanding the provisions of Paragraph 1, trading participation fees are not required for obtainment of trading qualification in the cases enumerated in the following items:

- (1) Where a Futures, etc. Trading Participant waives a Futures, etc. Trading Qualification and obtains a Government Bond Futures, etc. Trading Qualification at the same time;

- (2) Where a Futures, etc. Trading Participant or a Government Bond Futures, etc. Trading Participant obtains an FX Trading Qualification; or

- (3) When obtaining an FX Trading Qualification and designated by OSE as a market maker pursuant to the provisions of Rule 21, Paragraph 1 of the Special Rules for the Exchange FX Transaction (meaning the market maker prescribed in Rule 2, Paragraph 1, Item 6 of the Special Rules for the Exchange FX Transaction) at the same time.

4. The amount of money prescribed in Rule 33-2, Paragraph 4 shall be, with regards to trading qualifications already obtained, the amount after deducting trading participation fees paid to OSE at the time of obtaining said trading qualification from the amount corresponding to the category of obtainment of trading qualification stipulated in each item of Paragraph 1.

#### **Rule 6. Amount of Trading Participant Security Money**

1. The amount of trading participant security money prescribed in Rule 11-2, Paragraph 1 of the Trading Participant Regulations shall be a total amount of the amount enumerated in each of the following items for each trading qualification held by the Trading Participant.

- (1) The total amount of the basic fees and the derivatives trading system connection fees for one

month (for the fiscal year containing the day on which a Trading Participant newly obtains its trading qualification, the monthly amounts of the basic fees and the derivatives trading system connection fees calculated as at the time of obtaining such trading qualification), out of the trading participant fees of such trading participant as of the end of the fiscal year of OSE.

(2) The amount specified in the following Sub-item a. or b. in accordance with the classification referred to in such sub-items:

a. For fiscal years other than those referred to in b.

The total amount equivalent to twice the average monthly amount of trading fees, give-up fees and position transfer fees pertaining to the relevant trading qualification, out of trading participant fees of the Trading Participant for the last fiscal year of OSE

b. For the fiscal year in which the Trading Participant newly obtained a trading qualification

The amount specified by OSE on a case-by-case basis in consideration of the past and expected trading activities of the Trading Participant. However, OSE may change the amount of trading participant security money if it deems that the amount of trading participant security money is clearly insufficient in light of the Trading Participant's actual trading activity since it obtained the trading qualification.

2. Notwithstanding the provisions of the preceding paragraph, where a trading qualification is newly obtained and, in addition, where the case falls under each of the following Items, the amount of the trading participant security money for a fiscal year containing such day of newly obtaining trading qualifications shall be the amount set forth in each of such Items:

(1) Where appropriation of trading participant security money prescribed in Rule 32, Paragraph 2 of the Trading Participant Regulations is made (excluding cases where a person obtains an additional trading qualification)

The amount of the trading participant security money at the time of the forfeiture of a trading qualification

(2) Where appropriation of trading participant security money prescribed in Rule 32, Paragraph 3 of the Trading Participant Regulations is made

The amount of trading participant security money at the time of the forfeiture of trading qualifications of a Trading Participant which has forfeited trading qualifications

3. Where a Trading Participant conducts a merger with, succeeds business from or receives a business transfer, etc. from another Trading Participant due to a demerger, and such other Trading Participant waives its trading qualification, OSE may change the amount of trading participant security money, considering the actual trading activity of such other Trading Participant.

4. The amount of the trading participant security money for a new fiscal year shall be applied on and after the day set forth by OSE.

**Rule 7. Application to Brokerage for Clearing of Securities, etc.**

These Rules shall apply to the brokerage for clearing of securities, etc. by regarding a Trading Participant that entrusts the brokerage for clearing of securities, etc. as an entity that effects such transactions in the market derivatives contracts.

Appendix 1

Basis for Calculation of Trading Fees and Trading Fee Rates, etc.

The basis for calculation of trading fees and trading fee rates shall be as below.

Category of Trading	Category of Subject of Trading	Basis for Calculation	Trading Fee Rates, etc.
Government bond futures trading (limited to large contracts)	Standardized government bonds	Trading volume, and quantity of settlement by delivery/payment	<p>For each sale or purchase (excluding those effected by exercise of government bond futures options and the allocation of such exercise): JPY 95 per trading unit</p> <p>For each sale or purchase of government bond futures effected by exercise of government bond futures options and allocation of such exercise: JPY 82 per trading unit</p> <p>Volume/amount of settlement by delivery/payment of government bond futures trading: JPY 10 per trading unit</p>
Government bond futures trading (limited to mini contracts)	Prices of standardized government bonds	Trading volume	JPY 20 per trading unit for each sale or purchase
Index futures trading (excluding mini contracts)	Nikkei Average	Trading volume	<p>Amount obtained by multiplying the total trading volume for customer accounts by the trading fee rates stipulated in Appendix 2</p> <p>Amount obtained by multiplying the total trading volume for proprietary accounts by the trading fee rates stipulated in Appendix 2</p>
	TOPIX	Trading volume	Amount obtained by multiplying the total trading volume by the trading fee rates stipulated in Appendix 2
	RNP Index	Trading	JPY 29 per trading unit for each sale or purchase

		volume	
	JPX-Nikkei Index 400, TSE Mothers Index, TOPIX Core30 and TSE REIT Index	Trading volume	JPY 7 per trading unit for each sale or purchase
	TOPIX Banks Index	Trading volume	JPY 55 per trading unit for each sale or purchase
	DJIA, Nifty 50, TAIEX and FTSE China 50 Index	Trading volume	JPY 40 per trading unit for each sale or purchase
	Nikkei 225 VI	Trading volume	JPY 80 per trading unit for each sale or purchase
	Nikkei Average Dividend Index, TOPIX Dividend Index and TOPIX Core30 Dividend Index	Trading volume	Amount obtained by multiplying the total trading volume by the trading fee rates stipulated in Appendix 2
Index futures trading (limited to mini contracts)	Nikkei Average	Trading volume	Amount obtained by multiplying the total trading volume for customer accounts by the trading fee rates stipulated in Appendix 2  Amount obtained by multiplying the total trading volume for proprietary accounts by the trading fee rates stipulated in Appendix 2
	TOPIX	Trading volume	JPY 7 per trading unit for each sale or purchase
Security options trading	Security Options	Trading volume	JPY 10 per trading unit for each sale or purchase
Government bond futures options trading	Options on government bond futures	Trading volume	JPY 40 per trading unit for each sale or purchase
Index options trading	Nikkei Average Options (regular contracts)	Trading value	Amount obtained for each sale or purchase by multiplying the trading value by the trading fee rates stipulated in Appendix 2
	Nikkei Average Options (weekly	Trading volume	JPY 40 per trading unit for each sale or purchase

	contracts)		
	TOPIX Options and JPX-Nikkei Index 400 Options	Trading volume	JPY 40 per trading unit for each sale or purchase
Exchange FX trading	Yen financial index and non-yen financial index	Trading volume	JPY 20 per trading unit for each sale or purchase

Note 1. The meaning of the terms shall be as prescribed in the Business Regulations (including Special Rules).

Note 2. The quantity of settlement by delivery/payment shall be the total of the quantity of short positions for which repurchases were not made by the last trading day for each contract month and the quantity of long positions for which resales were not made by such last trading day.

Note 3. The total trading volume or trading value relating to market transactions of derivatives excluding Exchange FX transactions means the total amount of the trading volume or trading value from the trading day on which the first of each month finishes until the trading day on which the last day of said month finishes.

Note 4. In cases where the give-up is effected, an Order Execution Trading Participant shall pay the trading fees pertaining to the market transactions of derivatives that are the subject of such give-up.

Note 5. For Nikkei Average Options (excluding weekly contracts), in cases where the trading fee per trading unit of a sale or a purchase is less than JPY 5, the trading fee shall be JPY 5; and in cases where it exceeds JPY 350, the trading fee shall be JPY 350.

Note 6. The trading volume in Exchange FX Transaction shall mean the trading volume between the trading day starting on the first day of the month (to be moved down in order if it falls on a holiday (meaning a holiday described in Rule 6, Paragraph 1 of the Special Rules for Exchange FX Transaction, including temporary holidays prescribed in Paragraph 2 of the same rule; the same shall apply hereinafter in this Note 6)) and the trading day starting on the last day of said month (to be moved up in order if it falls on a holiday); provided, however, that, except in cases where the OSE considers necessary, for market makers as prescribed in Rule 2, Item 6 of the same rules, it shall exclude the volume relating to transactions through market maker bid and offer and transactions executed prescribed in Rule 19-2, Paragraph 1 of the same special rules.

## Appendix 2

### Trading Fee Rates Relating to Specified Market Derivatives Trading

The trading fee rates (figures below three decimal places (for Item 4, figures below eight decimal places) shall be rounded down; the same shall apply hereinafter) relating to market derivative trading on Nikkei Average, TOPIX, and Dividend Indices (meaning Nikkei Average Dividend Index, TOPIX Dividend Index, and TOPIX Core30 Dividend Index; the same shall apply hereinafter) in Appendix 1 for each Trading Participant shall be as prescribed in each category listed below; provided, however, that OSE shall prescribe on a case-by-case basis the trading fee rates for said Trading Participant for four months after obtaining a futures, etc. trading qualification.

(1) Index futures trading based on Nikkei Average

a. Large contracts for customer accounts

With respect to the monthly average trading volume (See Note below) pertaining to large contracts for customer accounts of said Trading Participant, the trading fee rate shall be the value obtained by dividing the amount calculated by the following (a) through (d) by said monthly average trading volume:

- (a) JPY 110 for each contract up to 10,000 contracts
- (b) JPY 70 for each contract exceeding the first 10,000 contracts up to 50,000 contracts
- (c) JPY 40 for each contract exceeding the first 50,000 contracts up to 100,000 contracts
- (d) JPY 30 for each contract exceeding the first 100,000 contracts

(Note) The monthly average trading volume means the value (figures less than one shall be rounded down) obtained by dividing the total of trading volume (in cases where give-up is effected, it shall be regarded as trading volume of Order Execution Trading Participant; the same shall apply hereinafter) for the three months from the trading day on which the first of the month 4 months prior (to be moved down in order if it falls on a non-business day (meaning a non-business day prescribed in Rule 19, Paragraph 1 of the Business Regulations, including extraordinary non-business days prescribed in Paragraph 2 of the same rule; the same shall apply hereinafter); the same shall apply hereinafter), finishes until the trading day on which the last day of the month two months prior (to be moved up in order if it falls on a non-business day) finishes by three (3). The same shall apply hereinafter.

b. Large contracts for proprietary accounts

With respect to the monthly average trading volume pertaining to large contracts for proprietary accounts of said Trading Participant, the trading fee rate shall be the value obtained by dividing the amount calculated by the following (a) through (d) by said

monthly average trading volume:

- (a) JPY 70 for each contract up to 10,000 contracts
- (b) JPY 35 for each contract exceeding the first 10,000 contracts up to 50,000 contracts
- (c) JPY 20 for each contract exceeding the first 50,000 contracts up to 100,000 contracts
- (d) JPY 15 for each contract exceeding the first 100,000 contracts

c. Mini contracts for customer accounts

With respect to the monthly average trading volume pertaining to mini contracts for customer accounts of said Trading Participant, the trading fee rate shall be the value obtained by dividing the amount calculated by the following (a) through (d) by said monthly average trading volume:

- (a) JPY 11 for each contract up to 100,000 units
- (b) JPY 8 for each contract exceeding the first 100,000 contracts up to 500,000 contracts
- (c) JPY 6 for each contract exceeding the first 500,000 contracts up to 1,000,000 contracts
- (d) JPY 4.5 for each contract exceeding the first 1,000,000 contracts

d. Mini contracts for proprietary accounts

With respect to the monthly average trading volume pertaining to Mini contracts for proprietary accounts of said Trading Participant, the trading fee rate shall be the value obtained by dividing the amount calculated by the following (a) through (d) by said monthly average trading volume:

- (a) JPY 7 for each contract up to 100,000 contracts
- (b) JPY 6 for each contract exceeding the first 100,000 contracts up to 500,000 contracts
- (c) JPY 4 for each contract exceeding the first 500,000 contracts up to 1,000,000 contracts
- (d) JPY 3.5 for each contract exceeding the first 1,000,000 contracts

(2) Index futures trading based on TOPIX

With respect to the monthly average trading volume of said Trading Participant pertaining to large contracts, the trading fee rate shall be the value obtained by dividing the amount calculated by the following a. through c. by said monthly average trading volume:

- a. JPY 55 for each contract up to 100,000 contracts
- b. JPY 35 for each contract exceeding the first 100,000 contracts up to 300,000 contracts
- c. JPY 30 for each contract exceeding the first 300,000 contracts

(3) Index futures trading based on Dividend Indices

With respect to the monthly average trading volume of said Trading Participant pertaining to

each Dividend Index, the trading fee rate shall be the value obtained by dividing the amount calculated by the following a. and b. by said monthly average trading volume:

- a. JPY 40 for each contract up to 5,000 contracts
- b. JPY 20 for each contract exceeding the first 5,000 contracts

(4) Index options trading based on Nikkei Average (excluding weekly contracts; the same shall apply hereinafter)

With respect to the monthly average trading value (See Note below) pertaining to index options trading based on Nikkei Average of said Trading Participant, the trading fee rate shall be the value obtained by dividing the amount calculated by the following a. through d. by said monthly average trading value:

- a. 5/10,000 for each amount up to JPY 10 billion
- b. 3.5/10,000 for each amount exceeding the first JPY 10 billion up to JPY 25 billion
- c. 2.5/10,000 for each amount exceeding the first JPY 25 billion up to JPY 35 billion
- d. 1.5/10,000 for each amount exceeding the first JPY 35 billion

(Note) The monthly average trading value means the value (figures less than one shall be rounded down) obtained by dividing the total of trading value (in cases where give-up is effected, it shall be regarded as trading value of Order Execution Trading Participant; the same shall apply hereinafter) for the three months from the trading day on which the first of the month 4 months prior (to be moved down if it falls on a non-business day finishes until the trading day on which the last day of the month two months prior (to be moved up in order if it falls on a non-business day) finishes by three (3). The same shall apply hereinafter.

## Appendix 3

### Amount of Derivatives Trading System Connection Fees

1. The amount of derivatives trading system connection fees (monthly) prescribed in Rule 2, Paragraph 4 shall be the sum of the amount specified in each of the following items and the meanings of the terms shall be stipulated in the Connectivity Manual.
  - (1) Sub-Participant Code usage fees  
The usage fees shall be JPY 0 for up to three (3) codes and JPY 5,000 for each additional code.
  - (2) User ID usage fees  
The User ID usage fees shall be the total amount specified in a. and b. below in accordance with the types of TAPs enumerated in said a. and b.
    - a. Shared TAP  
The fees for the Shared TAP shall be the total amount specified in (a) to (d) below in accordance with the types of User ID enumerated in said (a) to (d).
      - (a) Terminal User ID  
The fees shall be JPY 0 for up to two (2) IDs and JPY 18,000 for each additional ID.
      - (b) Trading User ID and Admin Trading User ID  
The fees shall be JPY 0 for up to two (2) IDs and JPY 10,000 for each additional ID.
      - (c) High Frequent Trading User ID  
JPY 28,000 per ID.
      - (d) MM User ID  
JPY 30,000 per ID.
    - b. Dedicated TAP  
The fees for the Dedicated TAP shall be the total amount specified in (a) and (b) below.
      - (a) Dedicated TAP usage fee  
JPY 100,000 per unit.
      - (b) Additional User ID registration fee  
Regardless of the types of User ID, the fees for one Dedicated TAP shall be JPY 0 for up to five (5) IDs and JPY 10,000 for each additional ID.
2. The number of trading system components (meaning Sub-Participant Codes, User IDs and Dedicated TAPs) to be used to calculate the amount specified in each of the items in the preceding paragraph shall be the number as of the first business day of the month; provided, however, that where a trading qualification is newly obtained, the number shall be as of the day of obtaining the trading qualification for the month to which said day of obtaining the trading qualification belongs.

3. The derivatives trading system connection fees for the month to which the day of obtaining or forfeiting the trading qualification of a trading participant belongs shall be calculated pro rata on a daily basis.
4. With respect to User ID (excluding the User ID pertaining to Dedicated TAP; the same shall apply hereinafter.) and Dedicated TAP, the minimum usage period shall be six (6) months; and, in case the trading participants stop using the User ID or Dedicated TAP within the minimum usage period after starting to use them, the amount obtained by subtracting the paid User ID usage fee pertaining to such User ID or such Dedicated TAP from an amount equivalent to the User ID usage fee for the minimum usage period pertaining to such User ID or such Dedicated TAP shall be added to the derivative trading system connection fee.
5. In cases where OSE deems it necessary to promote the effective utilization of the derivatives trading system by trading participants, OSE may offer separate discounts for the fees stipulated in Paragraph1, Item 2.

## **Rules Concerning Examination on Obtainment of Trading Qualifications**

(As of May 1, 2015)

Osaka Exchange, Inc.

### **Rule 1. Purpose**

These Rules set out matters concerning examination on obtainment of trading qualifications pursuant to Rule 30, Paragraph 2 of the Trading Participant Regulations.

### **Rule 2. Examination of Applicant for Obtainment of Trading Qualifications**

Examination of an applicant for obtainment of trading qualifications (hereinafter referred to as an "applicant") shall be conducted concerning the matters enumerated in the following items and other matters that Osaka Exchange, Inc. (hereinafter referred to as "OSE") considers necessary in light of securing the public interest or protection of investors:

#### (1) Numerical criteria

The applicant shall be expected to meet the criteria stipulated in a. to c. below by the date of obtainment of the trading qualification according to the classifications of a. to c.:

##### a. Financial instruments business operator

- (a) It shall be a stock company (limited to those with a board of directors and auditor(s), audit and supervisory committee or nominating committee, etc.) or a corporate entity similar to a company with a board of directors that was established pursuant to foreign laws and regulations (limited to those having a domestic business office or similar office);
- (b) The amount of stated capital shall be at least 300 million yen;
- (c) The amount of net worth shall be at least 500 million yen and exceed the amount of stated capital;
- (d) The capital-to-risk ratio (for those not operating Type 1 financial instrument business, the ratio calculated according to Article 46-6, Paragraph 1 of the Act) shall be at least 200%; and
- (e) For special financial instruments business operators, the state of soundness of management as prescribed in Article 57-5, Paragraph 2 of the Act is appropriate.

##### b. Registered financial institution

- (a) The amount of stated capital or total amount of equity contributions (or total amount of funds (including the reserve for redemption of funds) in cases of a mutual company) shall be at least 300 million yen.
- (b) The amount of net assets shall be at least 500 million yen and exceed the amount of stated capital or total amount of equity contributions (or total amount of funds (including the reserves for redemption of funds) in cases of a mutual company).

Rules Concerning Examination on Obtainment of Trading Qualifications

(c) For Internationally Active Banks, the Norinchukin Bank, Internationally Active Shinkin Banks, and the Shoko Chukin, Ltd. (hereinafter referred to as "Internationally Active Banks, etc."), falling under the following a. to c. (for a foreign bank, equivalent cases that OSE considers it necessary.).

- (i) Consolidated or non-consolidated common equity Tier 1 Ratio (meaning, in the cases of the Norinchukin Bank and Internationally Active Shinkin Banks, consolidated or non-consolidated common equity contribution Tier 1 Ratio) shall be at least 4.5%;
- (ii) Consolidated or non-consolidated Tier 1 Ratio shall be at least 6%; and
- (iii) Consolidated or non-consolidated total capital ratio shall be at least 8%.

(d) For registered financial institutions other than Internationally Active Banks, etc., foreign banks, and insurance companies, consolidated or non-consolidated capital ratio pertaining to domestic standards shall be at least 4%.

(e) For insurance companies, consolidated or non-consolidated solvency margin ratio shall be at least 400%.

c. Authorized transaction-at-exchange operators

- (a) The amount of stated capital shall be at least 300 million yen;
- (b) The amount of net worth shall be at least 500 million yen and exceed the amount of stated capital; and
- (c) The state of capital adequacy shall be appropriate in light of its owned assets, etc.

(2) Management structure

The applicant shall have a sound management structure, including that the applicant is not subject to the control or influence of any party lacking social credibility or any other party considered inappropriate in light of the objectives of OSE and the operations of its markets.

(3) Business execution structure

The applicant shall have an appropriate structure for business execution in relation to acceptance and execution of transactions on the OSE markets, delivery settlement, loss risk management, as well as compliance with the laws and regulations, dispositions by the administrative authorities under the laws and regulations, the Articles of Incorporation, Business Regulations, Brokerage Agreement Standards and any other regulations of OSE, and just and equitable principles of trade.

(4) Profitability

The applicant shall be expected to show stable profitability.

## **Rules Concerning Order Management Systems at Trading Participants**

(As of July 19, 2016)

Osaka Exchange, Inc.

### **Rule 1. Purpose**

1. These Rules prescribe necessary matters relating to order management systems to be established by Trading Participants pursuant to Rule 21-2 of the Trading Participant Regulations.
2. The purpose of establishing order management systems referred to in the preceding paragraph is for Trading Participants to formulate internal rules and take other necessary measures so as to prevent Trading Participants from accepting or placing erroneous orders with regard to market transactions of derivatives (limited to transactions in trading sessions specified by Osaka Exchange, Inc. (hereinafter referred to as "OSE")) on the OSE markets, thereby securing confidence in OSE and Trading Participants and contributing to the public interest and investor protection.

### **Rule 2. Formulation of Internal Rules**

A Trading Participant shall establish internal rules concerning order management that stipulate the matters enumerated in the following items:

- (1) Matters concerning confirmation of customer order details;
- (2) Matters concerning restriction on order placement;
- (3) Matters concerning appointment of approvers;
- (4) Matters concerning sufficient dissemination of internal rules; and
- (5) Other matters deemed necessary.

### **Rule 3. Confirmation of Customer Order Details**

1. A Trading Participant shall confirm the following matters when accepting orders from a customer;
  - (1) Issue (or contract month in the case of government bond futures transactions and index futures transactions), distinction of purchase or sale, price, quantity and other customer order details.
  - (2) The customer's resources, attributes, products the customer trades in and other information concerning the customer.
2. A Trading Participant shall make efforts to gain an understanding of customers' resources in advance.

**Rule 4. Restriction on Order Placement**

A Trading Participant shall impose restrictions referred to in the following items when placing orders on the OSE markets.

- (1) Restriction to prohibit placement of orders of a certain quantity/amount or more; and
- (2) Restriction to require approval for placement of orders of a certain quantity/amount or more.

**Rule 5. Appointment of Approvers**

A Trading Participant shall appoint persons who give approval referred to in Item 2 of the preceding rule at each office from which orders are placed on the OSE markets; provided, however, that this shall not apply where orders are placed through any other office and approval is given at such other office.

**Rule 6. Restrictions through Systems**

A Trading Participant shall implement the restrictions referred to in each item of Rule 4 by using the systems prescribed in the following items:

- (1) Restrictions referred to in Rule 4, Item 1  
Systems pertaining to restrictions on order placement provided by OSE to a Trading Participant
- (2) Restrictions referred to in Rule 4, Item 2  
Systems pertaining to order placement used by a Trading Participant

**Rule 7. Dissemination of Internal Regulations**

A Trading Participant shall ensure effectiveness of the internal rules referred to in Rule 2 by keeping officers and employees fully informed, conducting periodic internal inspection concerning the status of compliance, and taking any other necessary measures.

**Rule 8. Management of Automated Order Placement**

A Trading Participant shall, in a manner deemed appropriate, manage systems related to automated order placement to the OSE markets (in the case of customer orders, limited to those automatically entrusted by customers to the Trading Participant).

## **Rules Regarding Just and Equitable Principles of Trade**

(As of December 1, 2014)

Osaka Exchange, Inc.

### **Rule 1. Purpose**

These Rules prescribe acts to be stipulated by OSE pursuant to Rule 51 of the Trading Participant Regulations.

### **Rule 2. Definitions**

1. "Derivative instruments" shall mean transactions referred to in Article 2, Paragraph 21, Item 2 of the Act that pertain to indices (limited to those which indicate the overall price level of a large number of securities that are listed on a financial instruments exchange in Japan or foreign financial instruments market, or continually traded; the same shall apply hereinafter) (including similar transactions carried out on foreign financial instruments markets; hereinafter referred to as "index futures transactions"), transactions referred to in Article 2, Paragraph 21, Item 3 of the Act that pertain to indices (including similar transactions carried out on foreign financial instruments markets; hereinafter referred to as "index options transactions") and over-the-counter derivatives transactions that pertain to indices, as well as any other securities or instruments (including securities and instruments with the same characteristics that are issued by foreign governments or foreign corporations) for which the amount of the dividend, interest, distribution, redemption value, etc. are calculated based on the value of an index or price of an index futures transaction by a pre-determined method.
2. "Index-linked investment trust beneficiary certificates, etc." shall mean investment trust beneficiary certificates (meaning beneficiary certificates of investment trusts), foreign investment beneficiary certificates (meaning beneficiary certificates of foreign investment trusts; the same shall apply hereinafter in this paragraph), investment securities, foreign investment securities, beneficiary certificates of beneficiary certificate-issuing trusts (see Note 1 below), or beneficiary certificates of foreign beneficiary certificate-issuing trusts whose purpose is to link with an index.

(Note 1) Meaning, out of beneficiary certificates of beneficiary certificate-issuing trusts, securities or certificates issued by a foreign corporation in a foreign country whose trust assets are securities, foreign investment trust beneficiary certificates, foreign investment securities, or beneficiary certificates of foreign beneficiary certificate-issuing trusts that have the characteristics of corporate bonds.
3. "A subsidiary or parent company of a Trading Participant" shall mean a foreign legal entity that conducts business similar to financial instruments business and is a subsidiary (see Note 2 below)

or parent company (see Note 3 below) of the Trading Participant. In such cases, in the event that a subsidiary of the Trading Participant is the parent company of another company and in the event that another company is the parent company of a subsidiary of the Trading Participant, such other company shall be deemed to be a subsidiary of such Trading Participant. Furthermore, in the event that another company is the parent company of a parent company of the Trading Participant and in the event that a parent company of the Trading Participant is the parent company of another company, such other company shall be deemed to be a parent company of such Trading Participant.

(Note 2) Meaning a subsidiary prescribed in Article 2, Item 3 of the Companies Act (Act No. 86 of 2005) and, in the case where that the Trading Participant holds more than 50% of the total number of voting rights of shareholders (excluding voting rights attaching to shares where the voting rights cannot be exercised in relation to all matters that can be resolved by a general shareholders meeting and including voting rights attaching to shares deemed to have voting rights pursuant to Article 879, Paragraph 3 of the Companies Act; the same shall apply hereinafter) of another company, such other company; the same shall apply hereinafter)

(Note 3) Meaning a parent company prescribed in Article 2, Item 4 of the Companies Act and, in cases where another company holds more than 50% of the total number of voting rights of shareholders of the Trading Participant, such other company; the same shall apply hereinafter)

4. "A cash market" shall mean a financial instruments exchange market or a foreign financial instruments market established by a domestic financial instruments exchange for the purpose of trading securities.
5. "A derivative instruments market" shall mean a financial instruments exchange market or a foreign financial instruments market established for the purpose of trading derivative instruments.
6. "Security options, etc." shall mean security options (meaning those subject to transactions referred to in Article 2, Paragraph 21, Item 3 of the Act that pertain to trading of listed securities (including similar transactions on a financial instruments market, etc. in a foreign country) and over-the-counter options transactions, as well as those similar to such security options; the same shall apply hereinafter in this rule and the following rule), or rights to effect a transaction to pay/receive an amount of money that is calculated by a predetermined method based on the price of listed securities, or rights relating to securities or instruments whose dividends, interest, distributions, or redemption value is calculated by a predetermined method based on the price of listed securities.

7. "Arbitrage transactions" shall mean transactions executed using the relationship between the level of the contract value of an index futures transaction and the level of the index in which a participant buys, sells or makes final settlement of an index futures contract and accordingly conducts sales or purchases of multiple securities (limited to those selected such that the change in the total value of said securities approximates to the change in the value of the index underlying the index futures transactions) of differing issues in an amount corresponding to the contract value (including transactions equivalent thereto that are effected using index options transactions).

**Rule 3. Acts of Trading Participants**

Acts specified by OSE as prescribed in Rule 51 of the Trading Participant Regulations shall be the acts enumerated in each of the following items.

- (1) An act concerning transactions straddling 2 markets, etc.
- (2) An act concerning arbitrage transactions
- (3) An act concerning tender offers
- (4) An act concerning stabilization transactions
- (5) Other acts detrimental to the protection of investors or undermining the fairness of transactions.

**Rule 4. Act concerning Transactions Straddling 2 Markets, etc.**

1. Acts concerning transactions straddling 2 markets, etc. prescribed in Item 1 of the preceding rule shall mean the acts enumerated in the following items that are conducted by a Trading Participant in connection with transactions for its own account or for the account of a subsidiary or parent company of said Trading Participant or an affiliate thereof engaged in financial instruments business (limited to transactions in which said Trading Participant effectively makes investment decisions; the same shall apply hereinafter).
  - (1) A party holding one of two products whose prices are interrelated conducting wash trading in the other product with the aim of obtaining profit by causing other persons to misunderstand the trading conditions of the first product.
  - (2) A party holding one of two products whose prices are interrelated conspiring in advance with another party and making collusive trades in the other product with the aim of obtaining profit by causing other persons to misunderstand the trading conditions of the first product.
  - (3) A party holding one of two products whose prices are interrelated acting to cause the price of the other product to fluctuate by effecting trades in that product with the aim of

- obtaining profit by inducing transactions in the first product.
- (4) A party holding one of two products whose prices are interrelated circulating rumours about the other product with the aim of obtaining profit by inducing transactions in the first product.
  - (5) A party holding a derivative instrument acting intentionally to cause an index or the price of index futures transactions to fluctuate, or to prevent an index or the price of index futures transactions from rising or falling in order to settle finally or exercise said derivative instrument to its own advantage, or a person holding an unsettled positions on the sale of derivative instruments doing so in order to prevent exercise thereof by effecting transactions on a cash market or effecting index futures transactions or index options transactions on a derivative instruments market.
  - (6) A party holding security options, etc. acting intentionally to cause the price of the listed securities subject to said securities options to fluctuate, or to prevent the price of said listed securities from rising or falling in order to exercise them or calculate margins to its own advantage, or a party holding unsettled positions on the sale of security options acting in the same way in order to avoid receiving allocation of exercise thereof, by trading in said listed securities.
  - (7) Knowing that a customer will soon entrust an order which may have a considerable effect on the market price of one of two products whose prices of which are interrelated, using that knowledge to effect transactions in the other product in advance of said order being placed with the aim of obtaining profit.
2. The two products whose prices are interrelated as provided in the preceding paragraph shall mean the products referred to in each of the following items.
- (1) A derivative instrument and a listed security
  - (2) An index-linked investment trust beneficiary certificate, etc. and a listed stock
  - (3) A derivative instrument and an index-linked investment trust beneficiary certificate, etc.
  - (4) Security options, etc. and a listed security subject to said security options

**Rule 5. Acts concerning Arbitrage Transactions**

1. Acts concerning arbitrage transactions prescribed in Rule 3, Item 2 shall mean the acts enumerated in the following items that are conducted by Trading Participants.
  - (1) In the event that Tokyo Stock Price Index (meaning the free-float adjusted market capitalization-weighted stock price index that is calculated by Tokyo Stock Exchange, Inc. (hereinafter referred to as "TSE") based on all the domestic common stocks listed on the TSE First Section; hereinafter referred to as "TOPIX") falls below the closing value

of TOPIX on the previous day (to be moved up if it falls on a holiday; the same shall apply hereinafter) with a range greater than that stipulated in the following paragraph, a Trading Participant makes sales (excluding those based on brokerage for clearing of securities, etc.) pertaining to arbitrage transactions for its own account or for the account of a subsidiary or parent company of the Trading Participant or an affiliate thereof that operates financial instruments business during the period from the time that TOPIX falls with such range until the difference between the value of TOPIX and the closing value on the previous day narrows down within the range stipulated in Paragraph 3 (or, in the event that it has not narrowed down within said range by the end of the afternoon session, until the end of the afternoon session).

- (2) In the event that TOPIX has risen above the closing price on the previous day with a range greater than that stipulated in the following paragraph, a Trading Participant makes purchases (excluding those based on brokerage for clearing of securities, etc.) pertaining to arbitrage transactions for its own account or for the account of a subsidiary or parent company of the Trading Participant or an affiliate thereof that operates financial instruments business during the period from the time that TOPIX rises with such range until the difference between the value of TOPIX and the closing value on the previous day narrows down within the range stipulated in Paragraph 3.

2. The margins at which sales and purchases pertaining to arbitrage transactions are restricted pursuant to each item of the preceding paragraph shall be as follows, according to the range of the closing value of TOPIX on the previous day.

Closing value of TOPIX on the previous day	Margin
Less than 2,000 points	100 points
2,000 points or more, but less than 3,000 points	150 points
3,000 points or more, but less than 4,000 points	200 points
4,000 points or more	250 points

3. The margins at which restrictions on sales and purchases pertaining to arbitrage transactions are lifted pursuant to each item of Paragraph 1 shall be as follows, according to the range of the closing value of TOPIX on the previous day.

Closing value of the Tokyo Stock Price Index on the previous day	Margin
Less than 2,000 points	70 points
2,000 points or more, but less than 3,000 points	100 points

3,000 points or more, but less than 4,000 points	130 points
4,000 points or more	160 points

4. Notwithstanding the provisions of the preceding 2 paragraphs, OSE may change the margins stipulated in said paragraphs if it considers necessary in the light of stock market conditions, etc.

**Rule 6. Acts concerning Tender Offers**

Acts concerning tender offers prescribed in Rule 3, Item 3 shall mean the acts enumerated in the following items that are conducted by Trading Participants.

- (1) The following acts in cases where the Trading Participant becomes an entity that handles work enumerated in each item of Article 8, Paragraph 4 or each item of Article 14-3-3, Paragraph 4 of the Order for Enforcement of the Financial Instruments and Exchange Act (Cabinet Order No.321 of 1965; hereinafter referred to as "the Enforcement Order") for the tender offerer, or an entity that conducts purchases, etc. (meaning purchases, etc. prescribed in Article 27-2 of the Act; the same shall apply hereinafter) of stocks, etc. (meaning stocks, etc. prescribed in Article 27-2 of the Act; the same shall apply hereinafter) through the tender offer on behalf of the tender offerer (hereinafter referred to as a "tender offerer-related party").
  - a. Leaking or using without permission, after the decision to become a tender offerer-related party, special information on the tender offer obtained in the course of performing duties.
  - b. Conducting, after the decision to become a tender offerer-related party, purchases, etc. (including purchases, etc. under a discretionary investment contract) of stocks, etc. issued by an issuer of the stocks, etc. pertaining to the tender offer for its own account before the day of public notice on the tender offer, for the purpose of selling, etc. (meaning sales, etc. prescribed in Article 27-2 of the Act) to the tender offerer, etc. (meaning the tender offerer, etc. prescribed in Article 27-3 of the Act).
- (2) Becoming an entity related to a tender offerer with respect to a tender offer with the knowledge that the tender offer is being made by a party that intends to use the tender offer to obtain unfair gains by selling stocks, etc. it holds at favorable prices.
- (3) With respect to the tender offer, buying up and amassing a shareholding, and using its status as a large shareholder to sell shares to its own advantage to a party related to the issuer of such shares despite such party's intention, or accepting entrustment (excluding accepting of brokerage for clearing of securities, etc.) of purchases of shares for the account of an entity that intends to perform an act similar to such selling.

**Rule 7. Acts concerning Stabilization Transactions**

Acts concerning stabilization transactions prescribed in Rule 3, Item 4 shall mean those enumerated in each of the following items conducted by Trading Participants.

- (1) Acts (excluding acceptance of entrustment of purchases of securities effected by exercise in transactions enumerated in Article 2, Paragraph 21, Item 3 of the Act pertaining to securities transactions) enumerated in the following sub-items that are conducted with respect to purchases with conditions to be executed within the period during which stabilization transactions (meaning stabilization transactions prescribed in Article 20, Paragraph 1 of the Enforcement Ordinance; the same shall apply hereinafter) may be conducted (meaning stabilization transaction periods prescribed in Article 22, Paragraph 2 to Paragraph 4 of the Enforcement Ordinance; the same shall apply hereinafter) with regard to a listed stock (see Note 1), listed preferred equity contribution security, listed investment security (see Note 2) (hereinafter collectively referred to as "a listed stock, etc."), or a listed investment trust beneficiary certificate (meaning a beneficiary certificate of an investment trust; the same shall apply in this rule) issued by an issuer of securities (see Note 3) pertaining to a public offering (limited to those made to at least 50 parties as counterparty thereto; the same shall apply in this item and hereinafter) or a secondary distribution (excluding public offerings or secondary distributions pertaining to issuance of subscription warrants to officers or employees or granting of other rights deemed as stock options)

(Note 1) Meaning, in cases of a public offering or secondary distribution of current price subscription warrant securities, listed stocks or listed current price subscription warrant securities, or, in cases of a public offering or secondary distribution of current price corporate bonds with subscription warrants, listed stocks or listed current price corporate bonds with subscription warrants (see Note 3 below)

(Note 2) Meaning, in cases of a public offering or secondary distribution of current price new investment unit subscription warrant securities, listed investment securities or listed current price new investment unit subscription warrant securities (see Note 3 below)

(Note 3) Excluding (i) subscription warrants or corporate bonds other than subscription warrant securities representing subscription warrants based on which stocks will be issued or transferred at current price or a certain price close thereto (referred to as "current price subscription warrant securities" in

this rule) or corporate bonds with such subscription warrants (referred to as "current price corporate bonds with such subscription warrants" in this rule), (ii) preferred equity contribution securities other than those issued at current price or a certain price close thereto (meaning preferred equity contribution securities issued by cooperative structured financial institutions), and (iii) new investment unit subscription warrant securities other than those representing new investment unit subscription warrants based on which investment securities will be issued at current price or a certain price close thereto (hereinafter referred to as "current price new investment unit subscription warrant securities")

- a. An act of accepting entrustment (excluding acceptance of brokerage for clearing of securities, etc.) of purchases from a party (see Note 4 below) with the knowledge that such party is an issuer of securities subject to stabilization transactions  
(Note 4) Limited to, in cases where securities subject to stabilization transactions are listed stocks, etc., purchases of listed stocks, etc., and in cases where securities subject to stabilization transactions are listed investment trust beneficiary certificates, purchases of such listed investment trust beneficiary certificates.
- b. An act of accepting entrustment of purchases from a party (see Note 5) with the knowledge that such party is an entity that may entrust stabilization transactions (meaning entities enumerated in each item of Article 20, Paragraph 3 of the Enforcement Ordinance, however, excluding the entity prescribed in Sub-item c. below and Trading Participants)  
(Note 5) Excluding acceptance of brokerage for clearing of securities, etc. and acceptance of stabilization transactions (excluding, in cases other than the case prescribed in Sub-item d., stabilization transactions under a discretionary investment contract)
- c. An act of accepting entrustment of purchases from a party (limited to purchases for such party's account) with the knowledge that such party is a foreign corporation which conducts business similar to financial instruments business in a foreign country and which has concluded a principal underwriting contract with the issuer of securities subject to stabilization transactions (limited to securities pertaining to a public offering or secondary distribution conducted in regions outside Japan; the same shall apply in Sub-item d. below) (excluding acceptance of entrustment of stabilization transactions (excluding, in cases other than the cases prescribed in

Sub-item d, stabilization transactions under a discretionary investment contract), and excluding acceptance of entrustment of purchases that are specified by a financial instruments exchange in Japan as purchases deemed to be required so as to promote smooth circulation of securities or purchases deemed not to be based on investment decisions on individual issues in accordance with rules established by the financial instruments exchange as prescribed in Article 117, Paragraph 1, Item 22, Sub-items (i) and (v) of Cabinet Office Ordinance on Financial Instruments Business, etc. (Cabinet Office Ordinance No.52 of 2007) (hereinafter referred to as "the Cabinet Office Ordinance"))

- d. An act of, in cases of receiving notice from an issuer of securities subject to stabilization transactions as a party referred to in Article 20, Paragraph 3, Item 5 of the Enforcement Ordinance, purchasing for its own account (excluding stabilization transactions and purchases specified as purchases deemed to be required so as to promote smooth circulation of securities or purchases deemed not to be based on investment decisions on individual issues by rules of a financial instruments exchange(s) in Japan as prescribed in Article 117, Paragraph 1, Item 22, Sub-items (i) and (v) of the Cabinet Office Ordinance), purchasing under a discretionary investment contract (excluding stabilization transactions and purchases specified as purchases deemed to be required so as to promote smooth circulation of securities or purchases deemed not to be based on investment decisions on individual issues by rules of a financial instruments exchange(s) in Japan as prescribed in Article 117, Paragraph 1, Item 22, Sub-items (i) and (v) of the Cabinet Office Ordinance), and entrusting purchases (excluding entrustment of brokerage for clearing of securities, etc. (excluding entrustment of brokerage for clearing of securities, etc. pertaining to purchases for its own account (excluding stabilization transactions) and purchases under a discretionary investment contract (excluding stabilization transactions)))
- (2) Acts enumerated in the following sub-items conducted in a period from the time when the first stabilization transaction is effected to the last day of the stabilization transaction period with the knowledge that a stabilization transaction is effected for securities subject to such stabilization transactions, but without indicating such knowledge (excluding acceptance of purchases of securities effected by exercise in transactions referred to in Article 2, Paragraph 21, Item 3 of the Act pertaining to securities transactions)
  - a. Acceptance of entrustment for purchases of stocks, preferred equity contribution securities, current price subscription warrant securities, investment securities,

current price new investment unit subscription warrant securities, or current price corporate bonds with subscription warrants (in cases where securities subject to stabilization transactions are investment trust beneficiary certificates, such investment trust beneficiary certificates) issued by an issuer of such securities or sale of such securities (excluding (i) acceptance of entrustment of purchase from a financial instruments business operator or an authorized transactions-at-exchange operator, (ii) sale to a financial instruments business operator or an authorized transaction-at-exchange operator, and (iii) sale based on brokerage for clearing of securities, etc.), or entrustment of brokerage for clearing of securities, etc. pertaining to such sale

- b. Acceptance of entrustment of (i) transactions in which a Trading Participant will become the party to receive security options that allow it to make purchases of such securities in transactions enumerated in Article 2, Paragraph 21, Item 3 of the Act pertaining to transactions of securities issued by an issuer of such securities, or (ii) transactions in which a Trading Participant will become the party to grant security options that allow it to make sales of such securities

(Notes)

1. The definitions of terms pertaining to securities transactions shall be as prescribed in the Business Regulations of Tokyo Stock Exchange, Inc.
2. The definitions of terms pertaining to futures and options transactions shall be as prescribed in the Business Regulations of Osaka Exchange, Inc.

*UNDERTAKING BY CHIEF EXECUTIVE OFFICER TO  
NOTIFY COMMISSION STAFF IF ANY OF  
REPRESENTATIONS CEASE TO BE TRUE AND COMPLETE*

If any of the material representations made in connection with or related to this FORM FBOT ceases to be true and complete, I will ensure that Commission staff is informed promptly in writing of all changed facts and circumstances.



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By: Hiromi YAMAJI  
Title: President & CEO  
Date: January 27, 2017

(Reference Translation)

## **BCP (Business Continuity Plan) of Japan Exchange Group**

Revised on April 1, 2014  
Japan Exchange Group

In order to fulfill our responsibility as part of the social infrastructure, Japan Exchange Group, Inc., Tokyo Stock Exchange, Inc. (hereinafter "TSE"), Osaka Exchange, Inc. (hereinafter "OSE"), and Japan Exchange Regulation (hereinafter the four entities will be collectively referred to as "the JPX group") have been engaged in efforts to establish a system to allow us to consistently and stably continue business operations in case of various actualized risks.

Specifically, the JPX group has developed a BCP (Business Continuity Plan) that defines the basic policy, system, procedures, and other matters relevant to continuing business in case of emergency situations in order to respond to various risks including natural disasters, system failure, terrorist attacks, and flu epidemics.

The JPX group believes that it is important for the BCP to be made known to as many trading participants and other related institutions as possible, and has now decided to publicize the BCP to the extent where it does not undermine our security.

### 1. Basic Policy

The BCP aims to clarify the basic policy pertaining to company-wide business continuity.

The purpose is to minimize the impact on stakeholders, including trading participants, listed companies, and investors, by continuing business activities to the greatest extent possible when an emergency situation arises. Through business continuity, we also aim to enhance our brand image, which is a source of corporate value of the JPX group, and improve confidence in the Japanese securities market.

The basic policy on the continuation of trading and other operations on the TSE and OSE markets constitute the core of the BCP. Thus, the JPX group has publicized a "Contingency Plan for each market with the recognition that it is imperative for the BCP to be widely understood by parties who participate in these markets.

The Contingency Plans specify the basic measures to be taken in cases where it is difficult to continue trading and other transactions in the TSE and/or OSE markets due to situations such as a system failure at the JPX group or a related external institution, natural

disasters (such as earthquakes, strong winds, and floods), terrorist attacks, or a breakdown of the social infrastructure.

## 2. Target for Resumption

For business continuity based on the BCP, our basic policy at the JPX group is to continuously offer business operations to the maximum extent possible, and to aim for early resumption of operations in the event that the JPX group is forced to suspend business operations. Moreover, even in the case of a risk event that has an enormous impact on business continuity, such as a large-scale earthquake, the JPX group aims to resume necessary operations within approximately 24 hours following the occurrence of such risks, and to secure a state where trading and transactions can be resumed in the TSE and OSE markets and avoid a gap in trading days as far as possible.

To achieve this goal, the JPX group has been constructing a secondary center (a back-up data center) in a location that enables it to avoid being affected at the same time as the primary center (the data center where system operations are conducted in normal circumstances). Construction at the secondary center, in particular of core systems, is almost complete and we will be steadily and sequentially implementing initiatives to enhance our back-up structures toward further strengthening our system for securing business continuity.

## 3. Scope of BCP

### (1) Assumed Risks

The BCP covers responses for as wide a range of cases as possible by addressing assumed risks that may lead to suspension of operations with a combination of causal events and resultant events.

The casual events for which the BCP is prepared are natural disasters, including earthquakes, damage by wind or floods; system failure; breakdown of the social infrastructure such as electricity or telecommunication systems; terrorist attacks (actual destruction or cyber-terrorism); and flu epidemics. The BCP presumes events brought about by such causal events will result in the inability to use the building, inability to use systems, a lack of manpower, and the cessation of operations at external institutions among others.

## (2) Scope of Application

The BCP applies to the officers and employees of the JPX group (including representatives stationed overseas and secretaries employed overseas), temporary employees stationed in the facilities of the JPX group, and external staff including persons engaged in system development and maintenance.

The JPX group believes that it is important that related external institutions such as trading participants, many of which are closely involved in the continuity of our business, have a prior understanding of the Contingency Plans and related response measures, and continue to develop and improve communication systems even during normal times.

The BCP will be promptly applied to visitors, guests, and other persons in the facilities of the JPX group when an emergency situation occurs, clarifying in advance the department that will take care of these people.

## 4. Response Policy for Each Resultant Event

The BCP classifies the resultant events into the following three categories and sets forth a response policy for each category. Accordingly the BCP stipulates the system and procedures for continuing the bare minimum of business activity to the extent that the JPX group is capable in the event that any presumed emergency situation arises. Moreover, with respect to work done by each relevant department to continue business operations, the JPX group has prepared an instruction manual for each department, thereby establishing the system and structure for enabling smooth continuation of business during emergency situations.

### (1) Response based on the continued use of the primary center

This category of response refers to cases where the JPX group and related external institutions have sustained damage due to a risk event such as a large-scale earthquake, damage by wind or floods, or terrorist attack, but the primary center is still available.

In the cases where such an event occurs, some of the response measures the JPX group will take include:

- ① Setting up a BCP emergency headquarters
- ② Obtaining a firm understanding of the extent of damage
- ③ Considering and determining possible responses
- ④ Communicating with external entities

- ⑤ Comprehending the extent of damage/recovery of related external institutions
- ⑥ Procuring necessary resources
- ⑦ Conducting back-up operations (performing activities such as trading and other transactions at back-up offices)
- ⑧ Preparing for full-scale recovery

In the event that damage occurs, while the JPX group will make efforts to continue conducting trading and other transactions to the maximum extent possible by way of performing operations at back-up offices, the JPX group will suspend trading and other transactions in cases where the criteria for applying the Contingency Plan are met.

## (2) Response based on the switching of operations to the secondary center

This category of response refers to cases where the primary center has sustained localized damage or where the JPX group, the primary center, and related external institutions are afflicted simultaneously due to an inland earthquake in the Tokyo Metropolitan Area or surrounding area and the need to switch operations to the secondary center arises.

When the above event occurs, it is assumed that the JPX group applies the Contingency Plan and suspends trading temporarily. By switching operations to the secondary center, the JPX group is able to resume trading and other transactions as quickly as possible. (JPX aims to resume trading and other transactions within 24 hours by switching operations to the secondary center but will not resume such operations on the day of the event.)

## (3) System Failure

System failures refer to cases where it has become impossible to use the information systems of the JPX group due to hardware failure, application failure, communication line or other failure.

In the event of a system failure taking place, the JPX group will set up a key center around the relevant department to make an initial response, examine expected impact of the failure, and set up a system-related headquarters according to the extent of the failure. If the system failure is serious, the JPX group will set up a BCP emergency headquarters to implement the same response made in the case of (1).

In the event that a system failure occurs, while the JPX group will make an effort to continue trading and other transactions to the maximum extent possible, the JPX group will suspend trading and other operations in cases where the criteria for applying the Contingency Plan are met in terms of the severity of such system failure.

## 5. Development of the System and Procedures for Response

The JPX group has developed the following system and infrastructure in order to respond as stated in "4. Response policy for each resultant event":

### (1) BCP Emergency Headquarters

In order to implement the necessary response measures promptly and adequately in the event of an emergency situation, the JPX group will set up a BCP emergency headquarters to ascertain the state of damage and continuance of business operations, to communicate with related institutions, and to make necessary decisions.

### (2) Securing Manpower

In order to secure necessary manpower in cases where an emergency situation arises during night-time hours or on a non-business day, the JPX group has specified in advance the personnel who are to make the initial response. In order to promptly confirm the safety of personnel, including the officers and employees of the JPX group, and to enable the JPX group to secure manpower flexibly, the JPX group has introduced a system for confirming the safety of personnel.

### (3) Securing Means of Communication

In order to ensure that means of communication within the JPX group and with those outside are available in the event of an emergency situation, the JPX group has prepared various modes of communication such as telephones, facsimiles, priority telephones for times of disaster, mobile phones, e-mail, Target, notice via trading systems of JPX, and satellite phones. In addition, the JPX group has exchanged lists of communication contacts with related external institutions.

### (4) Back-up Offices

The JPX group has prepared back-up offices so that it can continue business operations at an area separate from the ordinary facilities in case they become unusable. At the same time, the JPX group has designated personnel that will move to back-up offices in an emergency situation.

### (5) Data Center

The JPX group has moved its core systems to a robust data center which meets all the requirements in the "FISC Security Guidelines on Computer Systems for Banking and Related Financial Institutions" of the Financial Information System Center (FISC) and for

which the JPX group has also obtained ISMS (Information Security Management System) certification.

#### (6) Tests and Training

In addition to verifying whether the contents of the BCP are appropriate or not, the JPX group has established a system for implementing BCP tests and training personnel including officers and employees at least once a year so that the JPX group can smoothly enact response measures set forth in the BCP in the event of an emergency situation.

#### 6. Future Tasks

While the response policy of the JPX group in the event of emergency situations and the outline of the system and procedures pertaining to such are mentioned above, the BCP needs to be continuously reviewed in response to the emergence of new risks and changes in circumstances.

In order to further enhance the system and procedures to secure business continuity, the JPX group will regularly review the BCP at least once a year, and will also review it on a timely basis in accordance with changes in circumstances.

Moreover, in order to strengthen the business continuity system of the securities market as a whole, it is important for the JPX group to improve the system and procedures in collaboration with market related parties such as trading participants.

In order to examine a BCP for the securities market as a whole and to take measures on an as-needed basis, a forum to examine a BCP for the securities market as a whole (hereinafter "BCP Forum") was set up. It consists of concerned parties from self-regulatory organizations (the securities dealers association and exchanges), securities companies, and administrative authorities, and is currently discussing the development of a system and procedures for communication in case of emergency, and implementation of joint drills.

The JPX group strives not only to further enhance its business continuity system, but also to strengthen cooperation with market related parties through discussion at the BCP Forum, and at the same time, work proactively on enhancement of the BCP functions for the securities market as a whole.

(Contact)

Corporate Strategy  
Japan Exchange Group, Inc.  
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## Contingency Plan with Regard to Trading in the Derivatives Market

Established on 18 October, 2013

Revised on 24 March, 2014

Osaka Exchange, Inc.

Osaka Exchange, Inc. (OSE) has hereby set forth the following contingency plan with regard to trading in the Derivatives market, in case the OSE is unable to continue or considers it inappropriate to continue trading in derivatives in its market due to failures in the OSE's trading systems and other related systems. The plan shall be applied when the OSE is unable to continue or considers it inappropriate to continue trading in derivatives in its market in instances of not only system failures but also other events such as earthquakes, wind/flood damage, terrorist threats, and stoppage of social infrastructure including electric/communication networks.

- Basic Policy

As the OSE has a key role as the financial/social infrastructure, the potential impact at home and abroad of a trading halt in the OSE market is growing larger and larger. The OSE will take measures with respect to trading in its market paying due attention to a balance between securing trading opportunities and forming prices, as ensuring fairness and reliability in price formation in the market is an important function that the OSE should provide.

- Concrete Plans

Possible Situations	Measures to be taken by the OSE	Rationale
1. In the event of a failure in the OSE	1. Matching Systems • Due to a failure, the OSE will halt trading of issues for which continued trading is difficult. 2. Order-Routing Systems:	

(Reference Translation)

Possible Situations	Measures to be taken by the OSE	Rationale
	<ul style="list-style-type: none"> <li>▪ If any trading participant is unable to participate in trading, the OSE will halt futures and options trading comprehensively taking into account factors such as the past market share based on trading volume of the trading participants (terminals, etc.) which exceeds approximately over 20%, the number of the participants unable to participate in trading, the state of the system failure, etc.</li> <li>▪ If trading participants (terminals, etc.) whose market share based on trading volume is more than 20% are likely unable to participate in trading, the OSE will confirm the circumstances of the system failure while halting trading and then take measures such as deciding whether to continue the trading halt or to resume trading.</li> <li>▪ J-NET trading will continue as long as any trading participant is able to place orders.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The OSE will halt trading because it is operationally difficult to re-entrust orders, etc. to other trading participants, etc. taking into account system and practical business issues (handling of existing open interests, opening accounts, etc.) and system failures pertaining to trading participants whose market share is a certain level or more and are considered to have a material impact on market liquidity.</li> <li>▪ Also, upon considering the trading conditions of each product, such as liquidity, the OSE will halt trading if it deems necessary.</li> </ul>
<p>II. In the event of failures in the OSE Market Information system</p>	<ul style="list-style-type: none"> <li>▪ If a failure is likely to distort price formation in the market, such as an overall system failure or where normal quote information is not distributed, the OSE will halt trading.</li> </ul>	<ul style="list-style-type: none"> <li>▪ If investment continues without sufficient dissemination of market information, the price formation in the market is likely distorted.</li> </ul>
<p>III. In the event of system failures at the clearing</p>	<ul style="list-style-type: none"> <li>▪ In the event of system failures at the clearing organization (Japan Securities Clearing Corporation, Inc. (JSCC) or, the Bank of Japan, fund-settlement banks, etc.), the handling of the settlement date, etc. shall be governed by the provisions of</li> </ul>	

(Reference Translation)

Possible Situations	Measures to be taken by the OSE	Rationale
<p>organization or Settlement organizations</p>	<p>the JSCC.</p> <ul style="list-style-type: none"> <li>If it takes days for recovery of the systems at the clearing organization or the settlement organization, the OSE may temporarily halt trading entirely.</li> </ul>	<ul style="list-style-type: none"> <li>In order to prevent settlement risk from increasing due to accumulation of unsettled transactions.</li> </ul>
<p>IV. In the event of a likelihood of exceeding the processing capacity of the OSE's trading systems or the clearing organization's system</p>	<ul style="list-style-type: none"> <li>In case the capacity of OSE's systems may be exceeded, OSE shall judge whether it is necessary to suspend trading, in view of trading conditions, etc.</li> </ul>	<ul style="list-style-type: none"> <li>In case trading may be suspended, OSE shall announce so in advance.</li> </ul>
<p>V. In the event of system failures on the side of trading participants</p>	<ul style="list-style-type: none"> <li>If any trading participant is unable to participate in trading, the OSE will halt futures and options trading with comprehensively taking into account factors such as the past market share based on trading volume of the trading participants (terminals, etc.) which exceeds approximately over 20%, the number of the participants unable to participate in trading, the state of the system failure, etc.</li> <li>If trading participants (terminals, etc.) whose market share based on trading volume is more than 20% are likely unable to participate in trading, the OSE will confirm the</li> </ul>	<ul style="list-style-type: none"> <li>The OSE will halt trading because it is operationally difficult to re-entrust orders, etc. to other trading participants, etc. taking into account system and practical business issues (handling of existing open interests, opening accounts, etc.) and system failures pertaining to trading participants whose market share is a certain level or more and are considered to have a material impact on market liquidity.</li> </ul>

Possible Situations	Measures to be taken by the OSE	Rationale
	<p>circumstances of the system failure while halting trading and then take measures such as deciding whether to continue the trading halt or to resume trading.</p> <ul style="list-style-type: none"><li>• J-NET trading will continue as long as any trading participant is able to place orders.</li></ul>	<ul style="list-style-type: none"><li>• Also, upon considering the trading conditions of each product, such as liquidity, the OSE will halt trading if it deems necessary.</li></ul>
<p>VI. In the event of earthquakes, wind and flood damage, terrorism, failures in social infrastructures including electric/communication networks, etc.</p>	<ul style="list-style-type: none"><li>• When the OSE concludes that it is unable to monitor trading in derivatives sufficiently in the event that employees of the OSE are forced to evacuate the building due to a terrorist threat, etc., the OSE will halt trading in such derivatives.</li><li>• If any trading participant is unable to participate in trading, the OSE will halt futures and options trading comprehensively taking into account factors such as the past market share based on trading volume of the trading participants (terminals, etc.) which exceeds approximately over 20%, the number of the participants unable to participate in trading, the state of the system failure, etc.</li><li>• If trading participants (terminals, etc.) whose market share based on trading volume is more than 20% are likely unable to participate in trading, the OSE will confirm the circumstances of the system failure while halting trading and then take measures such as deciding whether to continue the trading halt or to resume trading.</li><li>• J-NET trading will continue as long as any trading participant is able to place orders.</li></ul>	<ul style="list-style-type: none"><li>• The OSE will halt trading because it is operationally difficult to re-entrust orders, etc. to other trading participants, etc. taking into account system and practical business issues (handling of existing open interests, opening accounts, etc.) and system failures pertaining to trading participants whose market share is a certain level or more and are considered to have a material impact on market liquidity.</li><li>• Also, upon considering the trading conditions of each product, such as liquidity, the OSE will halt trading if it deems necessary.</li></ul>

(Reference Translation)

Possible Situations	Measures to be taken by the OSE	Rationale
	<ul style="list-style-type: none"> <li>▪ In the event of system failure at the clearing organization (Japan Securities Clearing Corporation, Inc. (JSCC)) or the Bank of Japan, fund-settlement banks, etc.), the handling of the settlement date, etc. shall be governed by the provisions of the JSCC.</li> <li>▪ If it takes days for recovery of the systems at the clearing organization or the settlement organization, the OSE may temporarily halt trading entirely.</li> </ul>	<ul style="list-style-type: none"> <li>▪ In order to prevent settlement risk from increasing due to the accumulation of unsettled transactions.</li> </ul>
<p>VII. When the trading is halted over an extended period of time</p>	<ul style="list-style-type: none"> <li>▪ If the past market share of trading participants who are unable to participate in trading exceeds approximately 20% over an extended period of time, the OSE may resume trading after considering recovery of the affected system and the situation of trading participants who are able to participate in trading.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The OSE will take measures according to the circumstances of trading participants' responses, paying due attention to the balance between derivatives trading opportunities and price formation, etc.</li> </ul>
<p>VIII. When stock indices are miscalculated</p>	<ul style="list-style-type: none"> <li>▪ In the event that an index that is the object of futures and options trading is miscalculated and the OSE deems that it may have a material impact on decisions of trading, the OSE will halt trading in futures and options pertaining to the index, and resume trading after disseminating information regarding the miscalculation.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Since miscalculation of the underlying index is highly likely to disrupt price formation of futures/options, the OSE will halt trading to disseminate the relevant information.</li> </ul>

○ Notification and communication system between trading participants and the OSE

Trading participants and the OSE will use all of the following communication methods which are used at ordinary times and still available during failures: simultaneous broadcast fax, Internet (OSE website), Target, etc.

OSE Self-Certification of J-GATE's Compliance with the IOSCO Principles

IOSCO Principles	OSE Self-Certification
<p>1. The system sponsor should be able to demonstrate to the relevant regulatory authorities that the system meets and continues to meet applicable legal standards, regulatory policies, and/or market custom or practice where relevant.</p>	<ul style="list-style-type: none"> <li>In compliance. With regard to functions and mechanism of the OSE trading system (J-GATE), the market rules, on which J-GATE is based, are authorized by its regulator, the Japanese Financial Services Agency (“FSA”). Also, OSE is required to obtain appropriately applicable authorization from the FSA, every time it intends to amend such rules. Therefore, OSE is able to demonstrate that J-GATE meets and continues to meet applicable legal standards, regulatory policies, and/or market custom or practice.</li> </ul>
<p>2. The system should be designed to ensure the equitable availability of accurate and timely trade and quotation information to all system participants and the system sponsor should be able to describe to the relevant regulatory authorities the processing, prioritization, and display of quotations within the system.</p>	<ul style="list-style-type: none"> <li>In compliance. J-GATE is designed to ensure the equitable availability of accurate and timely trade and quotation information to all subscribers who have concluded a market data agreement with OSE. Anyone who is interested may conclude the agreement with OSE under the pre-defined, transparent service fee schedule. The processing, prioritization, and display of quotations within J-GATE are developed in accordance with the OSE rules authorized by the FSA and tested thoroughly (including complete acceptance tests conducted by OSE), and OSE is able to</li> </ul>

IOSCO Principles	OSE Self-Certification
	describe to the FSA these functions and mechanism.
<p>3. The system sponsor should be able to describe to the relevant regulatory authorities the order execution algorithm used by the system, i.e. the set of rules governing the processing, including prioritization, and execution of orders.</p>	<ul style="list-style-type: none"> <li>• In compliance. The order execution algorithm used by J-GATE is developed in accordance with the OSE rules authorized by the FSA and tested thoroughly (including complete acceptance tests conducted by OSE), and OSE is able to describe to the FSA these functions and mechanism.</li> </ul>
<p>4. From a technical perspective, the system should be designed to operate in a manner which is equitable to all market participants and any differences in treatment among classes of participants should be identified.</p>	<ul style="list-style-type: none"> <li>• In compliance. J-GATE is designed to operate in a manner which is equitable to all market participants and there is no difference in treatment among classes of participants.</li> </ul>
<p>5. Before implementation, and on a periodic basis thereafter, the system and system interfaces should be subject to an objective risk assessment to identify vulnerabilities (e.g. the risk of unauthorized access, internal failures, human errors, attacks, and natural catastrophes) which may exist in the system design, development, or implementation.</p>	<ul style="list-style-type: none"> <li>• In compliance. Before implementation, OSE has comprehensively assessed system risks of the OSE systems during the process of risk management of the system development projects including J-GATE. The periodical assessment after the implementation is based on the FSA’s “Inspection Manual for Financial Instruments Business Operators” and the “Security Guidelines on Computer Systems for Banking and Related Financial Institutions” developed by the FISC (The Center for Financial Industry</li> </ul>

IOSCO Principles	OSE Self-Certification
	<p>Information Systems), etc. The system division of OSE used to be certified according to ISO 27001 (ISMS : Information Security Management System); however, with the merger with Tokyo Stock Exchange Group, OSE has conducted an objective assessment by the risk assessment at information asset level of ISMS and internal audit in accordance with ISMS practices of Japan Exchange Group since April 2014.</p>
<p>6. Procedures should be established to ensure the competence, integrity, and authority of system users, to ensure that system users are adequately supervised, and that access to the system is not arbitrarily or discriminatorily denied.</p>	<ul style="list-style-type: none"> <li>• In compliance. Access rights to J-GATE are equitably granted to all participants, while OSE supervises participants who have access to the system by requiring them to check whether the participants' systems meet pre-defined system requisites through simulation tests. Furthermore, , for the purpose of preventing unauthorized access, a physical connection to the OSE system is limited through a closed network (<i>arrownet</i>) which permits communications with a specified destination only.</li> </ul>
<p>7. The relevant regulatory authorities and the system sponsor should consider any additional risk management exposures pertinent to the system, including those arising from interaction with related financial systems.</p>	<ul style="list-style-type: none"> <li>• In compliance. OSE periodically conducts internal system risk assessments. In the assessment, OSE reviews targets of the risk management appropriately, and adds such targets if necessary, in response not only to changes of the OSE system but to other</li> </ul>

IOSCO Principles	OSE Self-Certification
	changes surrounding the OSE system as well.
8. Mechanisms should be in place to ensure that the information necessary to conduct adequate surveillance of the system for supervisory and enforcement purposes is available to the system sponsor and the relevant regulatory authorities on a timely basis.	<ul style="list-style-type: none"> <li>In compliance. OSE is a self-regulatory organization of financial services under the Japanese legislation, and participants are supervised directly by OSE. In OSE regulations, rights to conduct inspections and also to request reports regarding participant's system are included.</li> </ul>
9. The relevant regulatory authorities and/or the system sponsor should ensure that system users and system customers are adequately informed of the significant risks particular to trading through the system. The liability of the system sponsor, and/or the system providers to system users and system customers should be described, especially any agreements that seek to vary the allocation of losses that otherwise would result by operation of law.	<ul style="list-style-type: none"> <li>In compliance. OSE has concluded agreements with all participants regarding indemnification against losses arising from the use of the market and the OSE system. Under the agreements, it is stipulated that OSE shall not be liable for any losses caused by the use of the OSE system except for the case of OSE's gross negligence or willful misconduct.</li> </ul>
10. Procedures should be developed to ensure that the system sponsor, system providers, and system users are aware of and will be responsive to the directives and concerns of relevant regulatory authorities.	<ul style="list-style-type: none"> <li>In compliance. FSA has a regulatory power over OSE and its participants, and it also has a right to supervise providers of systems which participants use. Through its supervision process, FSA is able to make OSE and its participants aware of its directives and concerns.</li> </ul>

IOSCO Principles Review and Additions	OSE Self-Certification
<p>1. Regulatory authorities with responsibilities arising from the operation of cross-border markets for derivatives products ('relevant regulatory authorities') should develop cooperative arrangements and co-ordinate supervisory responsibilities, consistent with each authority's responsibilities and in a manner that promotes regulatory effectiveness and avoids the imposition of unnecessary regulatory costs.</p>	<ul style="list-style-type: none"> <li>• In compliance. The regulator of OSE, the Japan's Financial Services Agency ("FSA") does comply with the principle.</li> </ul>
<p>2. Each regulatory authority with responsibilities related to a cross-border market for derivatives (whether in respect of the market operator or the market participants) should be prepared to share relevant information in an efficient and timely manner. In developing cooperative arrangements, regulators should attempt to identify in advance the information needed, the sources of that information, the manner in which the information can be obtained and the channels through which it can be shared.</p>	<ul style="list-style-type: none"> <li>• In compliance. The FSA, the regulator of OSE and its participants, does comply with the principle.</li> </ul>
<p>3. The applicable regulatory requirements in the jurisdiction of each relevant regulatory authority and the framework for regulatory coordination and cooperation should be transparent.</p>	<ul style="list-style-type: none"> <li>• Not applicable - Not assessable by OSE.</li> </ul>

IOSCO Principles Review and Additions	OSE Self-Certification
<p>4. In considering their approach to cross-border markets for derivatives, access jurisdictions should take into account whether the initial jurisdiction authorizing the market operator applies the IOSCO Objectives and Principles of Securities Regulation (September 1998) and the 1990 Principles as supplemented above.</p>	<ul style="list-style-type: none"> <li>• Not applicable - Not assessable by OSE.</li> </ul>

**COMMODITY FUTURES TRADING COMMISSION**

**SUPPLEMENT S-1 to FORM FBOT**

**CLEARING ORGANIZATION SUPPLEMENT TO  
FOREIGN BOARD OF TRADE APPLICATION FOR REGISTRATION**

**Japan Securities Clearing Corporation**

**Name of clearing organization as specified in organizational documents**

**2-1, Nihombashi-Kabuto-cho, Chuo-ku, Tokyo 103-0026, JAPAN**

**Address of principal executive office**

**Osaka Exchange, Inc.**

**Name of the foreign board of trade on associated Form FBOT**

- If this Supplement S-1 is accompanying a new application for registration, please complete in full and check here.
- If this Supplement S-1 is an amendment to a pending application for registration, or to a final application that resulted in the issuance of an Order of Registration, please list all items that are amended or otherwise updated and check here.

**(\*). All exhibits to this Supplement S-1 including the documents attached thereto are replaced in connection with the change in clearing organization of the foreign board of trade from Osaka Exchange, Inc. to Japan Securities Clearing Corporation.**

**REGISTERED DERIVATIVES CLEARING ORGANIZATIONS**

If the clearing organization is registered with the Commission in good standing as a derivatives clearing organization (DCO), please indicate by checking here:

- CFTC-registered DCO.  
**If the clearing organization is registered with the Commission in good standing as a DCO, the clearing organization need not complete the remainder of the Supplement S-1.**

**GENERAL INFORMATION**

1. Name under which the business of the clearing organization will be conducted, if different than name specified above:

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2. List of principal office(s) where clearing organization activities are/will be conducted (please use multiple entries, when applicable):

Office (name and/or location):	Head Office
Address:	2-1, Nihombashi-Kabuto-cho, Chuo-ku, Tokyo, 103-0026, Japan
Phone Number:	+81-3- 3655-1234
Fax Number:	
Website Address:	<a href="http://www.jscc.co.jp/en/">http://www.jscc.co.jp/en/</a>

3. Contact Information.

3a. Primary Contact for Supplement S-1 (i.e., the person authorized to receive Commission correspondence in connection with this Supplement S-1 and to whom questions regarding the submission should be directed):

Name:	Mr. Tetsuo Otashiro
Title:	Head, Strategic Planning Division
Email Address:	info@jscc.co.jp
Mailing Address:	2-1, Nihombashi-Kabuto-cho, Chuo-ku Tokyo, 103-0026, Japan
Phone Number:	+81-3-3665-4073
Fax Number:	

3b. If different than above, primary contact at the clearing organization that is authorized to receive all forms of Commission correspondence:

Name:	_____
Title:	_____
Email Address:	_____
Mailing Address:	_____ _____ _____
Phone Number:	_____
Fax Number:	_____

## BUSINESS ORGANIZATION

Japan Securities Clearing Corporation (“JSCC”) is a joint-stock corporation, having its principal office registered in Tokyo, Japan.

JSCC was established on July 1, 2002 and started its business on January 14, 2003 as Securities Clearing Organization (currently “Financial Instruments Clearing Organization”) under Japan’s Securities and Exchange Law (Law No. 25 of 1948, as amended) (currently “Financial Instruments and Exchange Act”).

Since July 16, 2013, in connection with the restructuring of functions under Japan Exchange Group, JSCC has cleared all transactions executed on the Financial Instruments Exchange Market operated by Osaka Exchange, Inc.

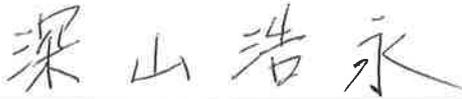
On October 26<sup>th</sup>, 2015, CFTC issued an order of exemption from registration as a derivatives clearing organization to JSCC for the clearing of Interest Rate Swaps under the terms and conditions designated in the order.

**SIGNATURES**

By signing and submitting this Supplement S-1, the clearing organization agrees to and consents that the notice of any proceeding before the Commission in connection with the associated foreign board of trade's application for registration or registration with the Commission may be given by sending such notice by certified mail or similar secured correspondence to the persons specified in sections 3a and 3b above.

Japan Securities Clearing Corporation has duly caused this Supplement S-1 to be signed on its behalf by the undersigned, hereunto duly authorized, this 27 day of January, 2017.

Japan Securities Clearing Corporation and the undersigned represent that all information and representations contained in this Supplement S-1 (and exhibits) are true, current, and complete. It is understood that all information, documentation, and exhibits are considered integral parts of this Supplement S-1. The submission of any amendment to a Supplement S-1 represents that all items and exhibits not so amended remain true, current, and complete as previously filed.



Hironaga MIYAMA

**Signature of Chief Executive Officer (or functional equivalent), on behalf of the Clearing Organization**

**President & CEO**

**Title**

Japan Securities Clearing Corporation

**Name of Clearing Organization**

(For domestic corporations)

### Clearing Participant Agreement

Date:            /            /  
                  (MM) /            (DD) /            (YYYY)

To President & CEO of Japan Securities Clearing Corporation

Address

Trade Name or Corporate  
Name

Name of the Representative

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_ (Seal)

We, (Name of your company), as a \_\_\_\_\_ (type of clearing participant) of Japan Securities Clearing Corporation (hereinafter referred to as "JSCC"), hereby agree that:

1. We shall abide by and comply with rules, such as JSCC's Business Rules, currently existing and to be established or amended in the future (hereinafter referred to as the "Rules").
2. We shall submit to such measures taken by JSCC in accordance with the Rules, as revocation of our clearing qualifications or suspension of assumption of obligations.
3. In cases where we renounce or forfeit clearing qualifications, we shall bear any and all responsibilities concerning such renunciation or forfeiture, and shall not cause any inconvenience for JSCC, other clearing participants, non-clearing participants that designated us as their Designated Clearing Participant and customers.
4. In cases where we receive notice from JSCC concerning an amendment of the content of this Agreement, we shall be deemed to have consented to such change if we file no objection by the prescribed date.
5. The Tokyo District Court shall be the exclusive court of jurisdiction for any litigation between us and JSCC.

Supplementary Provisions

This revised agreement shall come into effect on February 2, 2004.

This English translation of the Clearing Participant Agreement has been prepared solely for reference purposes and shall not have any binding force. The original Japanese text shall be definitive when construing or interpreting the meaning of any provision.

(For Foreign corporations)

## Clearing Participant Agreement

Date:                    /                    /  
                              (MM)   /                    (DD)   /                    (YYYY)

To President & CEO of Japan Securities Clearing Corporation

Address

Trade Name or Corporate  
Name

Name of the Representative

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
(Seal)

We, (Name of your company), as a \_\_\_\_\_ (type of clearing participant) of Japan Securities Clearing Corporation (hereinafter referred to as "JSCC"), hereby agree that:

1. We shall abide by and comply with rules, such as JSCC's Business Rules, currently existing and to be established or amended in the future (hereinafter referred to as the "Rules").
2. We shall submit to such measures taken by JSCC in accordance with the Rules, as revocation of our clearing qualifications or suspension of assumption of obligations.
3. In cases where we renounce or forfeit clearing qualifications, we shall bear any and all responsibilities concerning such renunciation or forfeiture, and shall not cause any inconvenience for JSCC, other clearing participants, non-clearing participants that designated us as their Designated Clearing Participant and customers.
4. In cases where we receive notice from JSCC concerning an amendment of the content of this Agreement, we shall be deemed to have consented to such change if we file no objection by the prescribed date.
5. Notice given by and between JSCC and us (including documents delivered by either party to the other party) shall be prepared in Japanese. In addition, any amount of money shall be presented in Japanese yen.
6. The Tokyo District Court shall be the exclusive court of jurisdiction for any litigation between us and JSCC.

Supplementary Provisions

This revised agreement shall come into effect on February 2, 2004.

This English translation of the Clearing Participant Agreement has been prepared solely for reference purposes and shall not have any binding force. The original Japanese text shall be definitive when construing or interpreting the meaning of any provision.

**Contract for Commissioning Clearance Relating to JGB Futures, Etc.**

\_\_\_\_\_ (hereinafter referred to as “Party A”) and \_\_\_\_\_ (hereinafter referred to as “Party B”) agree as follows with regard to the Brokerage for Clearing of Securities, etc. conducted by Party A pursuant to the commission from Party B (limited to those relating to the JGB Futures Contracts and/or Option Contracts on JGB Futures). The terms used in this Contract shall have the meanings prescribed in the Business Rules and other rules of Japan Securities Clearing Corporation (hereinafter referred to as “JSCC”).

(Article 1: Contracts Subject to Brokerage for Clearing of Securities, etc.)

- 1 The contracts which are the subject of this Contract (hereinafter referred to as the “Subject Contracts”) shall be the JGB Futures Contracts and the Option Contracts on JGB Futures, out of the contracts which are stipulated as contracts subject to the Brokerage for Clearing of Securities, etc. in the Business Rules of JSCC.
- 2 The JGB Futures Contracts which are formed through the exercise of options relating to the Option Contracts on JGB Futures pursuant to the commission of the Brokerage for Clearing of Securities, etc. shall be deemed as contracts which are formed pursuant to the commission of the Brokerage for Clearing of Securities, etc., and this Contract (excluding Article 5) shall apply to them accordingly.
- 3 The JGB Futures Contracts and the Option Contracts on JGB Futures which are newly formed between Party A and JSCC when the Give-up is completed in accordance with the rules prescribed by the Designated Market Operator, where Party B is the Trading Participant Executing Clearance, shall be deemed as contracts which are formed pursuant to the commission of the Brokerage for Clearing of Securities, etc., and this Contract (excluding Article 5) shall apply to them accordingly.

(Article 2: Designation of Designated Clearing Participant)

With respect to the Subject Contracts, Party B may in its discretion designate Party A as the Clearing Participant which is always commissioned to conduct the Brokerage for Clearing of Securities, etc. (hereinafter referred to as the “Designated Clearing Participant”).

(Article 3: Transfer of Unsettled Contracts upon Designation)

- 1 In the case where Party B has designated a Clearing Participant other than Party A as its Designated Clearing Participant, if Party B changes such designation to Party A, Party A shall take over the unsettled contracts pertaining to Party B's Subject Contracts (limited to those pertaining to Contracts for Clearing) pursuant to the commission of the Brokerage for

Clearing of Securities, etc. from the former Designated Clearing Participant.

- 2 In the case where Party B has lost its JGB Futures Clearing Qualification, if Party B designates Party A as its Designated Clearing Participant, Party A shall take over Party B's unsettled Contracts for Clearing.

(Article 4: Transfer of Unsettled Contracts upon Change of Designation, etc.)

- 1 In the case where Party B has designated Party A as its Designated Clearing Participant, if Party B changes such designation to another Clearing Participant, Party A shall transfer the unsettled contracts pertaining to Party B's Subject Contracts (limited to those pertaining to Contracts for Clearing) pursuant to the commission of the Brokerage for Clearing of Securities, etc. to such Clearing Participant which is newly designated by Party B as its Designated Clearing Participant.
- 2 In the case where Party B has designated Party A as its Designated Clearing Participant, if Party B obtains JSCC's JGB Futures Clearing Qualification, Party A shall transfer to Party B the unsettled Contracts for Clearing pertaining to Party B's Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc.

(Article 5: Execution of Buying/Selling Contracts, etc.)

- 1 The Subject Contracts, where Party A is designated by Party B as its Designated Clearing Participant, shall be executed by Party B on behalf of Party A.
- 2 When the preceding Paragraph applies, with respect to the Brokerage for Clearing of Securities, etc. pertaining to the Subject Contracts, when a quote or application pertaining to the Subject Contracts is made in accordance with the rules prescribed by the Designated Market Operator, Party B shall be deemed to have submitted to Party A an application for the commission of the Brokerage for Clearing of Securities, etc. pertaining to the Subject Contracts, and Party A shall be deemed to have accepted the commission of the Brokerage for Clearing of Securities, etc. pertaining to the Subject Contracts.

(Article 6: Clearance Brokerage Accounts)

The value of Japanese Government Bonds bought/sold, the Japanese Government Bonds bought/sold, the Margin, the Margin of the Non-Clearing Participant, money to be paid/received for the marking to the market relating to a JGB Futures Contract (referring to the money in an amount equal to the difference between the contract price and the clearing price, and the difference between the clearing price on the Trading Day and the clearing price on the immediately preceding Trading Day), the contract price for the sale or purchase relating to an Option Contract on JGB Futures, and any and all other securities and money to be

paid/received, in connection with the contracts pertaining to Party B's Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. shall be processed at the clearance brokerage account which is set up by Party B at Party A.

(Article 6-2: Cross Margining Request)

- 1 When Party B is a Cross Margining User set forth in Interest Rate Swap Clearing Business Rules, Party B may make application to Party A related to Cross Margining Request in connection with the Position in the JGB Futures Contracts on its account.
- 2 When its customer is a Cross Margining User and Party B has received an application related to Cross Margining Request from such customer, Party B shall confirm that the Position quantity subject to such application is not more than the Position quantity in JGB Futures Contracts on the account of such customer, and then may make such application related to Cross Margining Request to Party A on behalf of the customer.
- 3 When Party B makes application related to Cross Margining Request for itself or on behalf of its customer in accordance with the provisions of Paragraph 1, Party A shall make Cross Margining Request to JSCC.
- 4 Notwithstanding the provisions of Paragraphs 1 and 2, if Party A cannot make Cross Margining Request as prescribed by JSCC, Party B may make application related to Cross Margining Request to Party A neither for itself nor on behalf of its customer.

(Article 7: Acceleration of Performance of Obligations)

- 1 Upon the occurrence of any of the events described in the following Items with respect to Party B, the obligations which Party B owes to Party A in connection with the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. shall automatically become immediately due and payable without any notification, demand, etc., from Party A, and Party B shall perform such obligations immediately:
  - (1) If Party B suspends payment, or a petition for bankruptcy procedures, rehabilitation procedures, corporate reorganization procedures or a special liquidation involving Party B is filed;
  - (2) If the note clearinghouse takes any measure to suspend Party B's contracts or an Electronic Monetary Claim Recording Institution defined in Article 2, Paragraph 2 of the Electronically Recorded Monetary Claims Act (Act No. 102 of 2007) suspends Party B's transactions;
  - (3) If an order or notice of provisional attachment, preservative attachment or attachment with respect to any receivable relating to the contracts pertaining to the Subject

- Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. or any other receivable, which is held by [Party B] against [Party A], is issued;
- (4) If procedures for attachment or auction are commenced with respect to the collateral provided or deposited for [Party B]'s obligations owed to [Party A] in connection with the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc.;
  - (5) If any event which is the same as or similar to any of the events described in the preceding Items occurs under foreign laws and regulations;
  - (6) If [Party B] is a Cross Margining User and Default of [Party B] is determined by JSCC pursuant to the provisions of the Interest Rate Swap Clearing Business Rules of JSCC; or
  - (7) If [Party B] is a Cross Margining User and the Clearing Brokerage Contracts under the Interest Rate Swap Clearing Brokerage Agreement executed pursuant to the provisions of the Interest Rate Swap Clearing Business Rules prescribed by JSCC terminate on an Early Termination Date pursuant to the provisions of the said Interest Rate Swap Clearing Brokerage Agreement.
- 2 Upon the occurrence of any of the events described in the following Items with respect to [Party B], upon [Party A]'s request therefor, the obligations which [Party B] owes to [Party A] in connection with the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. shall become immediately due and payable, and [Party B] shall perform such obligations immediately:
- (1) If [Party B] delays the performance of any of the obligations (excluding obligations to deliver Japanese Government Bonds sold) owed by [Party B] to [Party A] in connection with the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. (except when the delay results from [Party B]'s failure to comply with the measures set forth in Paragraph 2 of Article 29-2 of the Business Rules of JSCC); or
  - (2) If procedures for attachment or auction are commenced (including when any event which is the same as or similar to any of the foregoing occurs under foreign laws and regulations) with respect to the collateral provided for [Party B]'s obligations owed to [Party A] (excluding the obligations relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc.).
- (Article 7-2: Rights and Obligations related to Cross Margined JGB Futures Cleared Contracts Cease to Exist)
- 1 When [Party B] is a Cross Margining User, at the time when the claims and obligations related

Exhibit A-3 - Contract for Commissioning Clearance

to the Cross Margined JGB Futures Cleared Contracts between Party A and JSCC cease to exist pursuant to the provisions of Paragraph 1 of Article 73-15-4 of the Business Rules of JSCC, the rights and obligations between Party A and Party B related the commission of the Brokerage for Clearing of Securities, etc. related to Party B's Cross Margined JGB Futures Cleared Contracts and arising under the said claims and obligations shall cease to exist and have no future effect.

- 2 Notwithstanding the provisions of the immediately preceding Paragraph, the rights and obligations between Party A and Party B arising under the claims and obligations related to the Cross Margined JGB Futures Cleared Contracts between Party A and JSCC which have already become due as set forth in Paragraph 4 of Article 73-15-4 of the Business Rules of JSCC shall remain in existence.

(Article 8: Handling in Cases Involving Suspension of Payment, etc.)

- 1 In the event that any of the Items under Paragraph 1 of Article 7 applies to Party B, Party A may, in its discretion, execute an Offsetting-Sale or Offsetting-Purchase relating to the JGB Futures Contracts, or an Offsetting-Sale, Offsetting-Purchase or exercise of an option relating to the Option Contracts on JGB Futures (including the commission thereof) on Party B's account, which are necessary for settlement of all of the contracts (other than those related to Cross Margined JGB Futures Cleared Contracts) pertaining to Party B's Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc.
- 2 In the event that Item (1) of Paragraph 2 of Article 7 applies to Party B, Party A may, in its discretion, buy or sell Japanese Government Bonds, execute an Offsetting-Sale or Offsetting-Purchase relating to the JGB Futures Contracts, or execute an Offsetting-Sale, Offsetting-Purchase or exercise of an option relating to the Option Contracts on JGB Futures (including the commission thereof) on Party B's account, which are necessary for settlement of the contracts pertaining to the Subject Contracts in relation to the relevant delay pursuant to the commission of the Brokerage for Clearing of Securities, etc.
- 3 In the event that any of the Items under Paragraph 2 of Article 7 applies to Party B, Party B shall, upon Party A's request therefor and by the date and time designated by Party A, commission the Brokerage for Clearing of Securities, etc. for the buying/selling Japanese Government Bonds, commission the Brokerage for Clearing of Securities, etc. for the Offsetting-Sale or Offsetting-Purchase relating to the JGB Futures Contracts, commission the Brokerage for Clearing of Securities, etc. for the Offsetting-Sale or Offsetting-Purchase, or issue notice concerning the exercise of options, relating to the Option Contract on JGB Futures, which are necessary for settlement of all of the contracts pertaining to Party B's Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities,

etc.

- 4 If Party B fails to commission the Brokerage for Clearing of Securities, etc. for the buying/selling Japanese Government Bonds, commission the Brokerage for Clearing of Securities, etc. for the Offsetting-Sale or Offsetting-Purchase relating to the JGB Futures Contracts, or commission the Brokerage for Clearing of Securities, etc. for the Offsetting-Sale or Offsetting-Purchase or issue notice of the exercise of options relating to the Option Contract on JGB Futures, by the date and time referenced in the preceding Paragraph, Party A may, in its discretion, buy or sell the Japanese Government Bonds, execute the Offsetting-Sale or Offsetting-Purchase relating to the JGB Futures Contracts, or execute the Offsetting-Sale or Offsetting-Purchase or exercise options relating to the Option Contract on JGB Futures (including the commission thereof), on Party B's account, which are necessary for settlement of the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc.
- 5 Notwithstanding the provisions of the preceding Paragraphs, if the Designated Market Operator takes measures, disciplinary measures or other actions to revoke Party B's trading qualification, expel Party B, suspend or restrict Party B's membership rights, or suspend Party B from commissioning the Brokerage for Clearing of Securities, etc. (limited to those related to the Brokerage for Clearing of Securities, etc. pertaining to the Subject Contracts under this Contract), Party A and Party B shall comply with the provisions prescribed by JSCC and/or the Designated Market Operator which takes such measures, disciplinary measures or other actions.
- 6 In the event that Party A incurs any loss as a result of the buying/selling the Japanese Government Bonds, the execution of the Offsetting-Sale or Offsetting-Purchase relating to the JGB Futures Contracts, or the execution of the Offsetting-Sale, Offsetting-Purchase or exercise of options relating to the Option Contract on JGB Futures (including the commission thereof), pursuant to the provisions of Paragraph 1 through Paragraph 4, or as a result of the buying/selling the Japanese Government Bonds, the execution of the Offsetting-Sale or Offsetting-Purchase relating to the JGB Futures Contracts, or the execution of the Offsetting-Sale, Offsetting-Purchase or exercise of options relating to the Option Contract on JGB Futures (including the commission thereof) in accordance with the provisions prescribed by JSCC and/or the Designated Market Operator pursuant to the provisions of the preceding Paragraph, Party B shall immediately pay to Party A an amount equal to such loss.
- 7 Notwithstanding the provisions of Paragraph 1 or 5, when Party B is a Cross Margining User and the rights and obligations related to the commission of the Brokerage for Clearing of Securities, etc. of Party B's JGB Futures Contracts related to Cross Margined JGB Futures

Cleared Contracts cease to exist pursuant to the provisions of the immediately preceding Article, [Party A] and [Party B] shall settle JGB Futures Contracts related to such Cleared Contracts pursuant to the provisions of the Business Rules of JSCC.

(Article 8-2: Handling in Cases Where Measures to Increase the Collateral, etc., are Taken with respect to [Party A])

In the event that [Party A] takes the measures set forth in Paragraph 2 of Article 29-2 of the Business Rules of JSCC with respect to [Party B] in connection with [Party B]'s Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., [Party B] shall comply with the relevant measures.

(Article 8-3: Offsetting-Sale, Offsetting-Purchase, etc. in the event of Issuance to [Party A] of Instructions for Improvement on Position Holding)

1 In the event that [Party A] receives the Instructions for Improvement on Position Holding pursuant to the Business Rules of JSCC (hereinafter referred to as the "Instructions for Improvement" in this Article) due to [Party B]'s failure to comply with the measure set forth in the preceding Article without a justifiable reason, [Party A] may request [Party B] to settle the unsettled Contracts for Clearing pertaining to [Party B]'s Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., or to transfer them to other Clearing Participants.

2 If [Party A] is unable to comply with the Instructions for Improvement even after making reasonable efforts to comply with the Instructions for Improvement, if [Party B] fails to comply with the request set forth in the preceding Paragraph without a justifiable reason, in spite of [Party A]'s issuance of such request in advance providing a reasonable grace period, [Party A] may, to the extent deemed reasonably necessary, execute the Offsetting-Sale or Offsetting-Purchase or exercise of options (including the commission thereof) on [Party B]'s account, relating to [Party B]'s Subject Contracts in order to settle the contracts pertaining to the Subject Contracts pursuant to the commission by [Party B] to [Party A] of the Brokerage for Clearing of Securities, etc.

3 Even if [Party B] incurs damages as a result of [Party A]'s execution of the Offsetting-Sale or Offsetting-Purchase, or exercise of options (including the commission thereof) referenced in, and pursuant to, the provisions of the preceding Paragraph, [Party B] shall not demand any compensation for such damages from [Party A] or JSCC; provided, however, that in the event that [Party A] or JSCC is deemed to have committed intentional misconduct or gross negligence, the foregoing shall not apply to any demand made against the person who committed such intentional misconduct or gross negligence.

(Article 9: Offsetting Calculation)

- 1 If Party B's obligations become immediately due and payable pursuant to the provisions of Article 7, and if Party B is required to perform its obligations owed to Party A in connection with the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. as a result thereof, Party A may set off such obligations against any and all receivables including receivables held by Party B against Party A relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., at any time and regardless of the due dates of such receivables.
- 2 When the setoff set forth in the preceding Paragraph is available, Party A may also receive a refund of any and all types of deposits on behalf of Party B and appropriate them to the performance of obligations without prior notice and without following prescribed procedures.
- 3 For the calculation of the setoff in accordance with the provisions of the preceding two Paragraphs, interest of the receivable and obligations, delay penalty, etc. shall accrue during the period ending on the date of such calculation, and the interest rates applicable to such receivable and obligations and the delay penalty rate applicable to the obligations owed to Party A shall be the rates prescribed by Party A.

(Article 10: Disposition of Securities Deposited in lieu of Cash)

If Party B's obligations become immediately due and payable pursuant to the provisions of Article 7, Party A may, on Party B's account, dispose of the securities provided or deposited by Party B as the Margin or Margin of the Non-Clearing Participant for the purpose of ensuring the performance of obligations relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. in such manner, at such time and place, for such price and on such other terms as may be determined by Party A in its discretion, without any notice or demand and without following legally prescribed procedures, and appropriate the proceeds thereof, after deducting therefrom related expenses, to the performance of such obligations of Party B regardless of the legally prescribed priority; in the event that any obligation remains unsatisfied after such appropriation of the proceeds, Party B shall immediately perform such obligation.

(Article 11: Disposition of Property in Possession)

If Party B's obligations become immediately due and payable pursuant to the provisions of Article 7, Party A may dispose of Party B's movable properties in Party A's possession, as well as Party B's securities, etc. in Party A's possession or recorded in Party A's account in

accordance with the Act on Transfer of Bonds, Stocks, etc. (Law No. 75 of 2001); in such event, Party A shall dispose them in accordance with the provisions of the preceding Article.

(Article 12: Order of Appropriation in Debt Repayment, etc.)

If all of Party B's obligations owed to Party A relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. are not discharged after performance of obligation or calculation of the setoff in accordance of Article 9, Party A may appropriate such performance or such calculation of the setoff to Party B's obligations in such order and manner as Party A deems proper.

(Article 13: Payment of Delay Penalty)

In the event that Party B fails to perform any of its obligations owed to Party A relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., upon Party A's request, Party B shall pay to Party A a delay penalty accruing at the rate prescribed by Party A during the period commencing on the day following the performance due date and ending on the date of actual performance.

(Article 14: Prohibition against Assignment of Receivables, etc.)

Party B shall not assign or pledge any of the receivables which Party B has against Party A in connection with the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc.

(Article 15: Termination of Contract)

- 1 Party A and Party B may, upon mutual consultation, terminate this Contract by mutual agreement.
- 2 In addition to the provisions of the preceding Paragraph, each of Party A and Party B shall have the right to terminate this Contract by issuing to the other party written notice of its intention of termination not less than \_\_\_ month(s) prior to the intended date of termination.
- 3 In addition to the provisions of the preceding two Paragraphs, whenever any of the Items under Paragraph 1 or under Paragraph 2 of Article 7 becomes applicable to Party B, Party A may terminate this Contract.
- 4 When intending to terminate this Contract pursuant to the provisions of the preceding three Paragraphs, Party A shall provide JSCC with prior notice. In such event, such notice shall be submitted on or before the day which is not later than three days before the intended date of termination (excluding Non-business Days) in the case of termination pursuant to Paragraph 1, without delay after Party A's issuance or receipt of the written notice of its intention of

termination to or from the other party in the case of termination pursuant to Paragraph 2, or on or before the day (if such day is a Non-business Day, the day immediately preceding such day which is not a Non-business Day) preceding the intended date of termination in the case of termination pursuant to the preceding Paragraph.

- 5 The provisions of this Contract shall continue to apply to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., which are formed prior to the termination of this Contract (including when the buying/selling the Japanese Government Bonds, the Offsetting-Sale or Offsetting-Purchase relating to the JGB Futures Contracts, and/or the Offsetting-Sale, Offsetting-Purchase or exercise of options relating to the Option Contract on JGB Futures (including the commission thereof) is executed pursuant to the provisions of Paragraph 1 through Paragraph 4 of Article 8; and including when the buying/selling the Japanese Government Bonds, the Offsetting-Sale or Offsetting-Purchase relating to the JGB Futures Contracts, and/or the Offsetting-Sale, Offsetting-Purchase or exercise of options relating to the Option Contract on JGB Futures (including the commission thereof) in compliance with the provisions prescribed by JSCC and/or the Designated Market Operator is executed pursuant to the provisions of Paragraph 5 of Article 8).
- 6 Notwithstanding the provisions of Paragraph 1 through Paragraph 3, the termination of this Contract shall not become effective if Party A fails to provide the notice set forth in Paragraph 4.

(Article 15-2: Special Termination)

- 1 Notwithstanding the provisions of the preceding Article, in the event that Party A and Party B have previously agreed upon the conditions, upon the satisfaction of which this Contract may be terminated, in order to ensure the likelihood of the performance of obligations relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., if any of such conditions becomes applicable to Party B, Party A may terminate this Contract by issuing written notice of its intention of termination to Party B on or before the day (if such day is a Non-business Day, the day immediately preceding such day which is not a Non-business Day) immediately preceding the intended date of termination.
- 2 When intending to terminate this Contract pursuant to the provisions of the preceding Paragraph (such termination is hereinafter referred to as the "Special Termination"), Party A shall notify JSCC immediately after issuing to the other party written notice of its intention of the Special Termination, and on or before the day (if such day is a Non-business Day, the day immediately preceding such day which is not a Non-business Day) immediately preceding

the intended effective date of such Special Termination.

- 3 The provisions of this Contract shall continue to apply to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. (including the Offsetting-Sale, Offsetting-Purchase or exercise of options relating to such contracts), which are formed prior to the Special Termination.
- 4 In addition to the provisions of the preceding Paragraph, the provisions of this Contract shall continue to apply to the contracts which are deemed by JSCC to be particularly necessary in order to secure the performance of settlement.
- 5 Notwithstanding the provisions of Paragraph 1, the Special Termination shall not become effective if Party A fails to issue the notice set forth in Paragraph 2.

(Article 16: Reports)

- 1 Party B shall, without delay upon Party A's request therefor, submit to Party A reports concerning the matters necessary in relation to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. or usage of the Cross Margining.
- 2 When any of the events set forth in the Items under Paragraph 1 or under Paragraph 2 of Article 7 occurs, or when the Designated Market Operator takes measures, disciplinary measures or other actions to revoke Party B's trading qualification, expel Party B, suspend or restrict Party B's membership rights or suspend Party B from commissioning the Brokerage for Clearing of Securities, etc. (limited to those related to the Brokerage for Clearing of Securities, etc. pertaining to the Subject Contracts under this Contract), Party B shall immediately submit a written report thereof to Party A.

(Article 17: Obligations of Party B)

Party B shall provide Party A with notice concerning the matters set forth in the following Items:

- (1) In the case where Party B or its customers have entered into a replacement deposit agreement concerning the Margin provided to or deposited with Party A in connection with the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., notice to that effect; and
- (2) In the case where the replacement deposit has been made by Party B or its customers, notice to that effect.

(Article 18: Confidentiality Obligations)

Party A and Party B shall maintain the confidentiality of the other party's business information obtained in the course of business operations in connection with this Contract, and shall not

Exhibit A-3 - Contract for Commissioning Clearance

use such information for any other purpose. In addition, neither Party A nor Party B shall divulge such information to any third party, except when responding to investigations conducted by the Designated Market Operator or JSCC, or when any other justifiable cause exists.

(Article 19: Notice of Changes Concerning Reported Matters)

Whenever any change is made to Party B's trade name or name, representative, seal impression and/or signature registered with Party A, address or office location, or any other matter, Party B shall immediately provide Party A with written notice thereof.

(Article 20: Release of Liability)

- 1 Party A shall not be liable for any damage caused by a delay in the return of collateral pursuant to Party B's request therefor, due to force majeure such as a natural disaster.
- 2 Party A shall not be liable for any damage resulting from a loss or deterioration of, or damage to, the collateral due to the cause described in the preceding Paragraph.
- 3 Party A shall not be liable for any damage caused by forgery, falsification or other incident involving reports or other documents, if Party A verifies the seal impression or signature used on such documents against the registered seal impression or signature with due care, and takes actions based on its belief that such seal impression or signature is genuine.

(Article 21: Effectiveness of Notice)

In the event that any type of notice given by Party A relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., addressed to Party B's address or office location previously provided to Party A, is delayed or fails to be delivered due to any cause attributable to Party B, such notice shall be deemed to have been delivered at the time when it should ordinarily have been delivered.

(Article 22: Reports, etc. Submitted by Electromagnetic Means)

When Party A's approval is obtained, in lieu of written reports to be submitted pursuant to the provisions of Paragraph 2 of Article 16 or written notification (other than those relating to changes to seal impressions or signatures) to be submitted pursuant to the provisions of Article 19, Party B may provide the information which is to be set forth in such reports or notification by the method involving the use of electronic information processing systems or other information communication technology. In such event, Party B shall be deemed to have provided such reports or notification in writing.

(Article 23: Applicable Law)

This Contract shall be governed by, and construed in accordance with, the laws of Japan.

(Article 24: Agreed Jurisdiction)

The court having jurisdiction over the area where Party A's headquarter office or \_\_\_\_\_ branch is located shall have jurisdiction over any lawsuit relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. under this Contract.

In witness whereof, Party A and Party B have prepared two counterparts of this Contract and affixed their names and seal impressions thereon, and shall retain one counterpart each.

Date: year / month / date

Party A (JGB Futures Clearing Participant)

Address:

Trade Name or Name:

Representative: (Seal)

Party B (JGB Futures Non-Clearing Participant)

Address:

Trade Name or Name:

Representative: (Seal)

(Note 1) In the blank space in “\_\_\_ month(s)” appearing in Paragraph 2 of Article 15, the number of month(s) which shall not be less than one month shall be inserted upon the agreement between Party A and Party B.

(Note 2) Article 15-2 may be deleted from this Contract, if Party A and Party B do not prescribe in advance the conditions referenced in Paragraph 1 of Article 15-2, upon the satisfaction of which this Contract may be terminated, in order to ensure the likelihood of the performance of obligations.

(Note 3) Upon the agreement by and between Party A and Party B, revisions which are deemed appropriate may be made to the provisions concerning the agreed jurisdiction in Article 24.

=End=

**Contract for Commissioning Clearance Relating to Index Futures, Etc.**

\_\_\_\_\_ (hereinafter referred to as "Party A") and \_\_\_\_\_ (hereinafter referred to as "Party B") agree as follows with regard to the Brokerage for Clearing of Securities, etc. conducted by Party A pursuant to the commission from Party B (limited to those relating to the Security Option Contracts, Index Futures Contracts and/or the Index Option Contracts). The terms used in this Contract shall have the meanings prescribed in the Business Rules and other rules of Japan Securities Clearing Corporation (hereinafter referred to as "JSCC").

(Article 1: Contracts Subject to Brokerage for Clearing of Securities, etc.)

- 1 The contracts which are the subject of this Contract (hereinafter referred to as the "Subject Contracts") shall be the Security Option Contracts (excluding the buying/selling of the underlying securities resulting from an exercise of options under the Security Option Contracts; the same shall apply hereinafter in this Article), the Index Futures Contracts and the Index Option Contracts, out of the contracts which are stipulated as contracts subject to the Brokerage for Clearing of Securities, etc. in the Business Rules of JSCC.
- 2 The contracts which are formed through the exercise of options relating to the Index Option Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. shall be deemed as contracts which are formed pursuant to the commission of the Brokerage for Clearing of Securities, etc., and this Contract (excluding Article 5) shall apply to them accordingly.
- 3 The Security Option Contracts, the Index Futures Contracts and/or the Index Option Contracts which are newly formed between Party A and JSCC when the Give-up is completed in accordance with the rules prescribed by the Designated Market Operator, where Party B is the Trading Participant Executing Clearance, shall be deemed as contracts which are formed pursuant to the commission of the Brokerage for Clearing of Securities, etc., and this Contract (excluding Article 5) shall apply to them accordingly.

(Article 2: Designation of Designated Clearing Participant)

With respect to the Subject Contracts, Party B may in its discretion designate Party A as the Clearing Participant which is always commissioned to conduct the Brokerage for Clearing of Securities, etc. (hereinafter referred to as the "Designated Clearing Participant").

(Article 3: Transfer of Unsettled Contracts upon Designation)

- 1 In the case where Party B has designated a Clearing Participant other than Party A as its Designated Clearing Participant, if Party B changes such designation to Party A, Party A

Exhibit A-3 - Contract for Commissioning Clearance

shall take over the unsettled contracts pertaining to [Party B]'s Subject Contracts (limited to those pertaining to Contracts for Clearing) pursuant to the commission of the Brokerage for Clearing of Securities, etc. from the former Designated Clearing Participant.

- 2 In the case where [Party B] has lost its Index Futures Clearing Qualification, if [Party B] designates [Party A] as its Designated Clearing Participant, [Party A] shall take over [Party B]'s unsettled Contracts for Clearing.

(Article 4: Transfer of Unsettled Contracts upon Change of Designation, etc.)

- 1 In the case where [Party B] has designated [Party A] as its Designated Clearing Participant, if [Party B] changes such designation to another Clearing Participant, [Party A] shall transfer the unsettled contracts pertaining to [Party B]'s Subject Contracts (limited to those pertaining to Contracts for Clearing) pursuant to the commission of the Brokerage for Clearing of Securities, etc. to such Clearing Participant which is newly designated by [Party B] as its Designated Clearing Participant.

- 2 In the case where [Party B] has designated [Party A] as its Designated Clearing Participant, if [Party B] obtains the Index Futures Clearing Qualification of JSCC, [Party A] shall transfer to [Party B] the unsettled Contracts for Clearing pertaining to [Party B]'s Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc.

(Article 5: Execution of Buying/Selling Contracts, etc.)

- 1 The Subject Contracts, where [Party A] is designated by [Party B] as its Designated Clearing Participant, shall be executed by [Party B] on behalf of [Party A].
- 2 When the preceding Paragraph applies, with respect to the Brokerage for Clearing of Securities, etc. pertaining to the Subject Contracts, when a quote or application pertaining to the Subject Contracts is made in accordance with the rules prescribed by the Designated Market Operator, [Party B] shall be deemed to have submitted to [Party A] an application for the commission of the Brokerage for Clearing of Securities, etc. pertaining to the Subject Contracts, and [Party A] shall be deemed to have accepted the commission of the Brokerage for Clearing of Securities, etc. pertaining to the Subject Contracts.

(Article 6: Clearance Brokerage Accounts)

The Margin, the Margin of the Non-Clearing Participant, the contract price for the sale or purchase relating to an Security Option Contract, money to be paid/received for the marking to the market relating to an Index Futures Contract (referring to the money in an amount equal to the difference between the contract price index and the clearing price index, and the difference between the clearing price index on the Trading Day and the clearing price index on the

immediately preceding Trading Day), money to be paid/received for the final settlement relating to an Index Futures Contract, the contract price for the sale or purchase relating to an Index Option Contract, money to be paid/received for the settlement resulting from the exercise of an option relating to an Index Option Contract, and any and all other securities and money to be paid/received, in connection with the contracts pertaining to Party B's Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. shall be processed at the clearance brokerage account which is set up by Party B at Party A.

(Article 7: Acceleration of Performance of Obligations)

1 Upon the occurrence of any of the events described in the following Items with respect to Party B, the obligations which Party B owes to Party A in connection with the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. shall automatically become immediately due and payable without any notification, demand, etc., from Party A, and Party B shall perform such obligations immediately:

- (1) If Party B suspends payment, or a petition for bankruptcy procedures, rehabilitation procedures, corporate reorganization procedures or a special liquidation involving Party B is filed;
- (2) If the note clearinghouse takes any measure to suspend Party B's contracts or an Electronic Monetary Claim Recording Institution defined in Article 2, Paragraph 2 of the Electronically Recorded Monetary Claims Act (Act No. 102 of 2007) suspends Party B's transactions;
- (3) If an order or notice of provisional attachment, preservative attachment or attachment with respect to any receivable relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. or any other receivable, which is held by Party B against Party A, is issued;
- (4) If procedures for attachment or auction are commenced with respect to the collateral provided or deposited for Party B's obligations owed to Party A in connection with the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc.; or
- (5) If any event which is the same as or similar to any of the events described in the preceding Items occurs under foreign laws and regulations.

2 Upon the occurrence of any of the events described in the following Items with respect to Party B, upon Party A's request therefor, the obligations which Party B owes to Party A in connection with the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. shall become immediately due and payable,

and Party B shall perform such obligations immediately:

- (1) If Party B delays the performance of any of the obligations owed by Party B to Party A in connection with the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. (except when the delay results from Party B's failure to comply with the measures set forth in Paragraph 2 of Article 29-2 of the Business Rules of JSCC); or
- (2) If procedures for attachment or auction are commenced (including when any event which is the same as or similar to any of the foregoing occurs under foreign laws and regulations) with respect to the collateral provided for Party B's obligations owed to Party A (excluding the obligations relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc.).

(Article 8: Handling in Cases Involving Suspension of Payment, etc.)

- 1 In the event that any of the Items under Paragraph 1 of the preceding Article applies to Party B, Party A may, in its discretion, execute an Offsetting-Sale, Offsetting-Purchase or exercise of an option relating to the Security Option Contracts, execute an Offsetting-Sale or Offsetting-Purchase relating to the Index Futures Contracts, or execute an Offsetting-Sale, Offsetting-Purchase or exercise of an option relating to the Index Option Contracts (including the commission thereof) on Party B's account, which are necessary for settlement of all of the contracts pertaining to Party B's Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc.
- 2 In the event that Item (1) of Paragraph 2 of the preceding Article applies to Party B, Party A may, in its discretion, execute an Offsetting-Sale, Offsetting-Purchase or exercise of an option relating to the Security Option Contracts, execute an Offsetting-Sale or Offsetting-Purchase relating to the Index Futures Contracts, or execute an Offsetting-Sale, Offsetting-Purchase or exercise of an option relating to the Index Option Contracts (including the commission thereof) on Party B's account, which are necessary for settlement of the contracts pertaining to the Subject Contracts in relation to the relevant delay pursuant to the commission of the Brokerage for Clearing of Securities, etc.
- 3 In the event that any of the Items under Paragraph 2 of the preceding Article applies to Party B, Party B shall, upon Party A's request therefor and by the date and time designated by Party A, commission the Brokerage for Clearing of Securities, etc. for the Offsetting-Sale or Offsetting-Purchase, or issue notice concerning the exercise of options, relating to the Security Option Contracts, commission the Brokerage for Clearing of Securities, etc. for the Offsetting-Sale or Offsetting-Purchase relating to the Index Futures Contracts, commission the Brokerage for Clearing of Securities, etc. for the Offsetting-Sale or Offsetting-Purchase,

- or issue notice concerning the exercise of options, relating to the Index Option Contracts, which are necessary for settlement of all of the contracts pertaining to Party B's Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc.
- 4 If Party B fails to commission the Brokerage for Clearing of Securities, etc. for the Offsetting-Sale or Offsetting-Purchase or issue notice of the exercise of options relating to the Security Option Contracts, fails to commission the Brokerage for Clearing of Securities, etc. for the Offsetting-Sale or Offsetting-Purchase relating to the Index Futures Contracts, or fails to commission the Brokerage for Clearing of Securities, etc. for the Offsetting-Sale or Offsetting-Purchase or issue notice of the exercise of options relating to the Index Option Contracts, by the date and time referenced in the preceding Paragraph, Party A may, in its discretion, execute the Offsetting-Sale or Offsetting-Purchase or exercise of options relating to the Security Option Contracts, execute the Offsetting-Sale or Offsetting-Purchase relating to the Index Futures Contracts, or execute the Offsetting-Sale or Offsetting-Purchase or exercise options relating to the Index Option Contracts (including the commission thereof), on Party B's account, which are necessary for settlement of the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc.
- 5 Notwithstanding the provisions of the preceding Paragraphs, if the Designated Market Operator takes measures, disciplinary measures or other actions to revoke Party B's trading qualification, expel Party B, suspend or restrict Party B's membership rights, or suspend Party B from commissioning the Brokerage for Clearing of Securities, etc. (limited to those related to the Brokerage for Clearing of Securities, etc. pertaining to the Subject Contracts under this Contract), Party A and Party B shall comply with the provisions prescribed by JSCC and/or the Designated Market Operator which takes such measures, disciplinary measures or other actions.
- 6 In the event that Party A incurs any loss as a result of the execution of the Offsetting-Sale, Offsetting-Purchase or exercise of options relating to the Security Option Contracts, the execution of the Offsetting-Sale or Offsetting-Purchase relating to the Index Futures Contracts, or the execution of the Offsetting-Sale, Offsetting-Purchase or exercise of options relating to the Index Option Contracts (including the commission thereof), pursuant to the provisions of Paragraph 1 through Paragraph 4, or as a result of the execution of the Offsetting-Sale, Offsetting-Purchase or exercise of options relating to the Security Option Contracts, the execution of the Offsetting-Sale or Offsetting-Purchase relating to the Index Futures Contracts, or the execution of the Offsetting-Sale, Offsetting-Purchase or exercise of options relating to the Index Option Contracts (including the commission thereof) in accordance with the provisions prescribed by JSCC and/or the Designated Market Operator

Exhibit A-3 - Contract for Commissioning Clearance

pursuant to the provisions of the preceding Paragraph, [Party B] shall immediately pay to [Party A] an amount equal to such loss.

(Article 8-2: Handling in Cases Where Measures to Increase the Collateral, etc., are Taken with respect to [Party A])

In the event that [Party A] takes the measures set forth in Paragraph 2 of Article 29-2 of the Business Rules of JSCC with respect to [Party B] in connection with [Party B]'s Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., [Party B] shall comply with the relevant measures.

(Article 8-3: Offsetting-Sale, Offsetting-Purchase, etc. in the event of Issuance to [Party A] of Instructions for Improvement on Position Holding)

- 1 In the event that [Party A] receives the Instructions for Improvement on Position Holding pursuant to the Business Rules of JSCC (hereinafter referred to as the "Instructions for Improvement" in this Article) due to [Party B]'s failure to comply with the measure set forth in the preceding Article without a justifiable reason, [Party A] may request [Party B] to settle the unsettled Contracts for Clearing pertaining to [Party B]'s Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., or to transfer them to other Clearing Participants.
- 2 If [Party A] is unable to comply with the Instructions for Improvement even after making reasonable efforts to comply with the Instructions for Improvement, if [Party B] fails to comply with the request set forth in the preceding Paragraph without a justifiable reason, in spite of [Party A]'s issuance of such request in advance providing a reasonable grace period, [Party A] may, to the extent deemed reasonably necessary, execute the Offsetting-Sale or Offsetting-Purchase or exercise of options (including the commission thereof) on [Party B]'s account, relating to [Party B]'s Subject Contracts in order to settle the contracts pertaining to the Subject Contracts pursuant to the commission by [Party B] to [Party A] of the Brokerage for Clearing of Securities, etc.
- 3 Even if [Party B] incurs damages as a result of [Party A]'s execution of the Offsetting-Sale or Offsetting-Purchase, or exercise of options (including the commission thereof) referenced in, and pursuant to, the provisions of the preceding Paragraph, [Party B] shall not demand any compensation for such damages from [Party A] or JSCC; provided, however, that in the event that [Party A] or JSCC is deemed to have committed intentional misconduct or gross negligence, the foregoing shall not apply to any demand made against the person who committed such intentional misconduct or gross negligence.

(Article 9: Offsetting Calculation)

- 1 If Party B's obligations become immediately due and payable pursuant to the provisions of Article 7, and if Party B is required to perform its obligations owed to Party A in connection with the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. as a result thereof, Party A may set off such obligations against any and all receivables including receivables held by Party B against Party A relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., at any time and regardless of the due dates of such receivables.
- 2 When the setoff set forth in the preceding Paragraph is available, Party A may also receive a refund of any and all types of deposits on behalf of Party B and appropriate them to the performance of obligations without prior notice and without following prescribed procedures.
- 3 For the calculation of the setoff in accordance with the provisions of the preceding two Paragraphs, interest of the receivable and obligations, delay penalty, etc. shall accrue during the period ending on the date of such calculation, and the interest rates applicable to such receivable and obligations and the delay penalty rate applicable to the obligations owed to Party A shall be the rates prescribed by Party A.

(Article 10: Disposition of Securities Deposited in lieu of Cash)

If Party B's obligations become immediately due and payable pursuant to the provisions of Article 7, Party A may, on Party B's account, dispose of the securities provided or deposited by Party B as the Margin or Margin of the Non-Clearing Participant for the purpose of ensuring the performance of obligations relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. in such manner, at such time and place, for such price and on such other terms as may be determined by Party A in its discretion, without any notice or demand and without following legally prescribed procedures, and appropriate the proceeds thereof, after deducting therefrom related expenses, to the performance of such obligations of Party B regardless of the legally prescribed priority; in the event that any obligation remains unsatisfied after such appropriation of the proceeds, Party B shall immediately perform such obligation.

(Article 11: Disposition of Property in Possession)

If Party B's obligations become immediately due and payable pursuant to the provisions of Article 7, Party A may dispose of Party B's movable properties in Party A's possession, as well as Party B's securities, etc. in Party A's possession or recorded in Party A's account in accordance with the Act on Transfer of Bonds, Stocks, etc. (Law No. 75 of 2001); in such event,

Party A shall dispose them in accordance with the provisions of the preceding Article.

(Article 12: Order of Appropriation in Debt Repayment, etc.)

If all of Party B's obligations owed to Party A relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. are not discharged after performance of obligation or calculation of the setoff in accordance of Article 9, Party A may appropriate such performance or such calculation of the setoff to Party B's obligations in such order and manner as Party A deems proper.

(Article 13: Payment of Delay Penalty)

In the event that Party B fails to perform any of its obligations owed to Party A relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., upon Party A's request, Party B shall pay to Party A a delay penalty accruing at the rate prescribed by Party A during the period commencing on the day following the performance due date and ending on the date of actual performance.

(Article 14: Prohibition against Assignment of Receivables, etc.)

Party B shall not assign or pledge any of the receivables which Party B has against Party A in connection with the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc.

(Article 15: Termination of Contract)

- 1 Party A and Party B may, upon mutual consultation, terminate this Contract by mutual agreement.
- 2 In addition to the provisions of the preceding Paragraph, each of Party A and Party B shall have the right to terminate this Contract by issuing to the other party written notice of its intention of termination not less than \_\_\_ month(s) prior to the intended date of termination.
- 3 In addition to the provisions of the preceding two Paragraphs, whenever any of the Items under Paragraph 1 or under Paragraph 2 of Article 7 becomes applicable to Party B, Party A may terminate this Contract.
- 4 When intending to terminate this Contract pursuant to the provisions of the preceding three Paragraphs, Party A shall provide JSCC with prior notice. In such event, such notice shall be submitted on or before the day which is not later than three days before the intended date of termination (excluding Non-business Days) in the case of termination pursuant to Paragraph 1, without delay after Party A's issuance or receipt of the written notice of its intention of termination to or from the other party in the case of termination pursuant to Paragraph 2, or

on the day (if such day is a Non-business Day, the day immediately preceding such day which is not a Non-business Day) preceding the intended date of termination in the case of termination pursuant to the preceding Paragraph.

- 5 The provisions of this Contract shall continue to apply to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., which are formed prior to the termination of this Contract (including when the Offsetting-Sale, Offsetting-Purchase or exercise of options relating to the Security Option Contracts, the Offsetting-Sale or Offsetting-Purchase relating to the Index Futures Contracts, or the Offsetting-Sale, Offsetting-Purchase or exercise of options relating to the Index Option Contracts (including the commission thereof) is executed pursuant to the provisions of Paragraphs 1 through Paragraph 4 of Article 8; and including when the Offsetting-Sale, Offsetting-Purchase or exercise of options relating to the Security Option Contracts, the Offsetting-Sale or Offsetting-Purchase relating to the Index Futures Contracts, or the Offsetting-Sale, Offsetting-Purchase or exercise of options relating to the Index Option Contracts (including the commission thereof) in compliance with the provisions prescribed by JSCC and/or the Designated Market Operator is executed pursuant to the provisions of Paragraph 5 of Article 8).
- 6 Notwithstanding the provisions of Paragraph 1 through Paragraph 3, the termination of this Contract shall not become effective if Party A fails to provide the notice set forth in Paragraph 4.

(Article 15-2: Special Termination)

- 1 Notwithstanding the provisions of the preceding Article, in the event that Party A and Party B have previously agreed upon the conditions, upon the satisfaction of which this Contract may be terminated, in order to ensure the likelihood of the performance of obligations relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., if any of such conditions becomes applicable to Party B, Party A may terminate this Contract by issuing written notice of its intention of termination to Party B on or before the day (if such day is a Non-business Day, the day immediately preceding such day which is not a Non-business Day) immediately preceding the intended date of termination.
- 2 When intending to terminate this Contract pursuant to the provisions of the preceding Paragraph (such termination is hereinafter referred to as the "Special Termination"), Party A shall notify JSCC immediately after issuing to the other party written notice of its intention of the Special Termination, and on or before the day (if such day is a Non-business Day, the day immediately preceding such day which is not a Non-business Day) immediately preceding

the intended effective date of such Special Termination.

- 3 The provisions of this Contract shall continue to apply to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. (including the Offsetting-Sale, Offsetting-Purchase or exercise of options relating to such contracts), which are formed prior to the Special Termination.
- 4 In addition to the provisions of the preceding Paragraph, the provisions of this Contract shall continue to apply to the contracts which are deemed by JSCC to be particularly necessary in order to secure the performance of settlement.
- 5 Notwithstanding the provisions of Paragraph 1, the Special Termination shall not become effective if Party A fails to issue the notice set forth in Paragraph 2.

(Article 16: Reports)

- 1 Party B shall, without delay upon Party A's request therefor, submit to Party A reports concerning the matters necessary in relation to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc.
- 2 When any of the events set forth in the Items under Paragraph 1 or under Paragraph 2 of Article 7 occurs, or when the Designated Market Operator takes measures, disciplinary measures or other actions to revoke Party B's trading qualification, expel Party B, suspend or restrict Party B's membership rights or suspend Party B from commissioning the Brokerage for Clearing of Securities, etc. (limited to those related to the Brokerage for Clearing of Securities, etc. pertaining to the Subject Contracts under this Contract), Party B shall immediately submit a written report thereof to Party A.

(Article 17: Obligations of Party B)

Party B shall provide Party A with notice concerning the matters set forth in the following Items:

- (1) In the case where Party B or its customers have entered into a replacement deposit agreement concerning the Margin provided to or deposited with Party A in connection with the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., notice to that effect; and
- (2) In the case where the replacement deposit has been made by Party B or its customers, notice to that effect.

(Article 18: Confidentiality Obligations)

Party A and Party B shall maintain the confidentiality of the other party's business information obtained in the course of business operations in connection with this Contract, and shall not use such information for any other purpose. In addition, neither Party A nor Party B shall

divulge such information to any third party, except when responding to investigations conducted by the Designated Market Operator or JSCC, or when any other justifiable cause exists.

(Article 19: Notice of Changes Concerning Reported Matters)

Whenever any change is made to Party B's trade name or name, representative, seal impression and/or signature registered with Party A, address or office location, or any other matter, Party B shall immediately provide Party A with written notice thereof.

(Article 20: Release of Liability)

- 1 Party A shall not be liable for any damage caused by a delay in the return of collateral pursuant to Party B's request therefor, due to force majeure such as a natural disaster.
- 2 Party A shall not be liable for any damage resulting from a loss or deterioration of, or damage to, the collateral due to the cause described in the preceding Paragraph.
- 3 Party A shall not be liable for any damage caused by forgery, falsification or other incident involving reports or other documents, if Party A verifies the seal impression or signature used on such documents against the registered seal impression or signature with due care, and takes actions based on its belief that such seal impression or signature is genuine.

(Article 21: Effectiveness of Notice)

In the event that any type of notice given by Party A relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., addressed to Party B's address or office location previously provided to Party A, is delayed or fails to be delivered due to any cause attributable to Party B, such notice shall be deemed to have been delivered at the time when it should ordinarily have been delivered.

(Article 22: Reports, etc. Submitted by Electromagnetic Means)

When Party A's approval is obtained, in lieu of written reports to be submitted pursuant to the provisions of Paragraph 2 of Article 16 or written notification (other than those relating to changes to seal impressions or signatures) to be submitted pursuant to the provisions of Article 19, Party B may provide the information which is to be set forth in such reports or notification by the method involving the use of electronic information processing systems or other information communication technology. In such event, Party B shall be deemed to have provided such reports or notification in writing.

(Article 23: Applicable Law)

This Contract shall be governed by, and construed in accordance with, the laws of Japan.

(Article 24: Agreed Jurisdiction)

The court having jurisdiction over the area where Party A's headquarter office or \_\_\_\_\_ branch is located shall have jurisdiction over any lawsuit relating to the contracts pertaining to the Subject Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc. under this Contract.

In witness whereof, Party A and Party B have prepared two counterparts of this Contract and affixed their names and seal impressions thereon, and shall retain one counterpart each.

Date: year / month / date

Party A (Index Futures Clearing Participant)

Address:

Trade Name or Name:

Representative: (Seal)

Party B (Index Futures Non-Clearing Participant)

Address:

Trade Name or Name:

Representative: (Seal)

(Note 1) In the blank space in “\_\_\_ month(s)” appearing in Paragraph 2 of Article 15, the number of month(s) which shall not be less than one month shall be inserted upon the agreement between Party A and Party B.

(Note 2) Article 15-2 may be deleted from this Contract, if Party A and Party B do not prescribe in advance the conditions referenced in Paragraph 1 of Article 15-2, upon the satisfaction of which this Contract may be terminated, in order to ensure the likelihood of the performance of obligations.

(Note 3) Upon the agreement by and between Party A and Party B, revisions which are deemed appropriate may be made to the provisions concerning the agreed jurisdiction in Article 24.

=End=

# Business Rules



## Japan Securities Clearing Corporation

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This English translation of the Business Rules has been prepared solely for reference purposes and shall not have any binding force. The original Japanese text shall be definitive when construing or interpreting the meaning of any provision.

**Business Rules**  
**(In effect as of January 8, 2016)**

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Section 5 Settlement of Option Contract on JGB Futures

(Article 73-16 to Article 73-19-2)

Section 6 Settlement of Index Futures Contract

(Article 73-20 to Article 73-25)

Section 7 Settlement of Index Option Contract

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Section 9 Miscellaneous Clauses (Article 73-40 to Article 73-42)

**Chapter 5-2 Succession of Margin and Unsettled Contract, etc. (Article 73-43)**

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Section 2 Cross Margining Special Clearing Charge (Article 79-2)

**Chapter 8 Miscellaneous Provisions (Article 79-3 to Article 88)**

**Supplementary Provisions**

Chapter 1 General Provisions

## (Article 1 Purpose)

1 These Business Rules set forth the matters necessary for the Financial Instruments Obligation Assumption Business and related businesses and the businesses incidental thereto<sup>\*1</sup>, for which the subject contracts shall be the contracts stipulated in each Item of Paragraph 2 of Article 3<sup>\*2</sup>, and each of which is conducted by Japan Securities Clearing Corporation<sup>\*3</sup>.

(\*<sup>1</sup> hereinafter referred to as “Securities and Similar Contracts Clearing Business”)

(\*<sup>2</sup> hereinafter referred to as “Securities and Similar Contracts”)

(\*<sup>3</sup> hereinafter referred to as “JSCC”)

2 These Business Rules<sup>\*1</sup> shall apply only to the Securities and Similar Contract Clearing Business conducted by JSCC, and shall not apply to the Financial Instruments Obligation Assumption Business and the like conducted in relation to any contracts subject to clearing other than the Securities and Similar Contracts or any other businesses conducted by JSCC.

(\*<sup>1</sup> including any rules and regulations promulgated hereunder)

## (Article 2 Financial Instruments Obligation Assumption Business and Related Businesses)

JSCC shall engage in the Financial Instruments Obligation Assumption Business which covers the Securities and Similar Contracts conducted pursuant to these Business Rules and the business prescribed in Paragraph 1 of Article 156-6 of the Financial Instruments and Exchange Act (Act No.25 of 1948; hereinafter referred to as “the Act”) which relates to the foregoing.

## (Article 3 Contracts Subject to Clearing)

1 The financial instruments which are the subject of the contract<sup>\*1</sup> constituting the obligation subject to the Securities and Similar Contract Clearing Business conducted by JSCC shall be the financial instruments set forth in each Item provided below:

(\*<sup>1</sup> hereinafter referred to as “Contracts Subject to Clearing”)

(1) Stocks issued by domestic corporations<sup>\*1</sup>;

(\*<sup>1</sup> including stock acquisition right securities, preferred equity capital contribution securities<sup>\*1-1</sup> and capital contribution securities<sup>\*1-2</sup> issued by a domestic corporation)

(\*<sup>1-1</sup> referring to those issued by a cooperative-organization-type financial institution; the same applies hereinafter)

(\*<sup>1-2</sup> referring to those issued by a corporation established under a special law<sup>\*1-2-1</sup>)

(\*<sup>1-2-1</sup> excluding preferred equity capital contribution securities)

(2) Stocks issued by foreign corporations<sup>\*1</sup>;

(\*<sup>1</sup> including stock acquisition right securities issued by foreign a corporation and

- depository receipts for foreign stocks<sup>\*1-1</sup>)
- (<sup>\*1-1</sup> referring to those which represent the rights in respect of the stock issued by a foreign corporation; the same applies hereinafter)
- (3) Investment trust beneficiary securities<sup>\*1</sup>, investment securities<sup>\*2</sup>, foreign investment trust beneficiary securities and foreign investment securities;
- (<sup>\*1</sup> referring to the beneficiary securities of investment trusts; the same applies hereinafter)
- (<sup>\*2</sup> including Investment securities acquisition right securities)
- (4) Beneficiary securities of beneficiary securities issuing trusts and beneficiary securities of foreign beneficiary securities issuing trusts<sup>\*1</sup>;
- (<sup>\*1</sup> referring to securities or certificates which have the characteristics of beneficiary securities of beneficiary securities issuing trusts and issued by a foreign corporation; the same applies hereinafter)
- (5) Covered warrants<sup>\*1</sup>;
- (<sup>\*1</sup> referring to the securities stipulated in Item 19 of Paragraph 1 of Article 2 of the Act; the same applies hereinafter)
- (6) Bonds; and
- (7) Standardized instruments which are created by a Financial Instruments Exchange for Market Transactions of Derivatives by standardizing interest rates, maturity periods and/or other conditions of Financial Instruments
- 2 The Contracts Subject to Clearing<sup>\*1</sup> shall consist of the contracts set forth in each of the following Items:
- (<sup>\*1</sup> limited to the contracts prescribed by JSCC)
- (1) Buying and selling securities in a market prescribed in (a) or (b) below<sup>\*1</sup> which is operated and managed by a market operator<sup>\*2</sup> designated by JSCC;
- (<sup>\*1</sup> hereinafter referred to as "Designated Financial Instruments Market")
- (<sup>\*2</sup> hereinafter referred to as "Designated Market Operator")
- (a) Financial Instruments Exchange Market
- (b) Proprietary Trading System<sup>\*1</sup>
- (<sup>\*1</sup> referring to an institution similar to a Financial Instruments Exchange Market, which is conducted through the electronic data processing system stipulated in Item 10 of Paragraph 8 of Article 2 of the Act; the same applies hereinafter)
- (2) Security Option Contract<sup>\*1</sup> in a Designated Financial Instruments Market;
- (<sup>\*1</sup> referring to the contract stipulated in Item 3 of Paragraph 21 of Article 2 of the Act in respect of buying and selling stock; the same applies hereinafter)
- (3) JGB Futures Contract<sup>\*1</sup> in a Designated Financial Instruments Market;
- (<sup>\*1</sup> referring to the securities futures contract stipulated in Item 1 of Paragraph 21 of Article 2 of the Act on standardized instruments in respect of Japanese Government Bonds, or the securities futures contract stipulated in Item 2 of the same Paragraph in

respect of the price of the relevant standardized instruments; the same applies hereinafter)

- (4) Option Contract on JGB Futures\*<sup>1</sup> in a Designated Financial Instruments Market;  
(\*<sup>1</sup> referring to the securities option contract stipulated in Item 3 of Paragraph 21 of Article 2 of the Act in respect of JGB Futures Contract; the same applies hereinafter)
- (5) Index Futures Contract\*<sup>1</sup> in a Designated Financial Instruments Market;  
(\*<sup>1</sup> referring to the index futures contract stipulated in Item 2 of Paragraph 21 of Article 2 of the Act; the same applies hereinafter)
- (6) Index Option Contract\*<sup>1</sup> in a Designated Financial Instruments Market;  
(\*<sup>1</sup> referring to the index option contract stipulated in Item 3 of Paragraph 21 of Article 2 of the Act and prescribed by the Designated Market Operator as corresponding to a contract stipulated in Item 2 of the same Paragraph; the same applies hereinafter)
- (7) Lending and borrowing\*<sup>1</sup> of cash, Stocks And The Like\*<sup>2</sup> that are necessary for settling the buying/selling set forth in Item (1), and the buying/selling of the underlying securities resulting from the exercise of the option under Security Option Contract;  
(\*<sup>1</sup> limited to the lending made by the Designated Securities Finance Company to a Clearing Participant in accordance with the Rules for Money/Securities Loan Transaction through the settlement system of the Designated Market Operator; hereinafter referred to as the "Money/Securities Loan Transaction")  
(\*<sup>2</sup> referring to the stocks and the like stipulated in the Lending Rules for Lending/Borrowing Transaction\*<sup>2-1</sup> prescribed by the Securities Finance Company\*<sup>2-2</sup> which the Designated Market Operator designated and notified to JSCC as the entity to conduct the operations prescribed in Paragraph 1 of Article 156-24 of the Act through the settlement system of that Market; the same applies hereinafter in this Article)  
(\*<sup>2-1</sup> herein referred to simply as the "Rules for Money/Securities Loan Transaction")  
(\*<sup>2-2</sup> must be a Clearing Participant\*<sup>2-2-1</sup>; herein referred to as the "Designated Securities Finance Company")  
(\*<sup>2-2-1</sup> referring to the Clearing Participant prescribed in Article 5; the same applies hereinafter in this Article and the following Article)
- (8) Lending and borrowing of Stocks And The Like that is necessary for the Money/Securities Loan Transaction\*<sup>1</sup>;  
(\*<sup>1</sup> limited to the lending made by a Clearing Participant to the Designated Securities Finance Company in accordance with the Rules for Money/Securities Loan Transaction through the settlement system of the Designated Market Operator; hereinafter referred to as the "Securities Lending Transaction")
- (9) Transfer of the Collateral, etc.\*<sup>1</sup> for the Money/Securities Loan Transaction or the Securities Lending Transaction;  
(\*<sup>1</sup> referring to the stocks and the like collateralizing a cash loan, and the cash

collateralizing a stock loan and the like under the Money/Securities Loan Transaction and the cash collateralizing a stock borrowing and the like under the Securities Lending Transaction, both of which are prescribed by the Rules for Money/Securities Loan Transaction; the same applies hereinafter)

(10) Buying and selling resulting from Buy-In<sup>\*1</sup>; and

(\*1 referring to the Buy-In prescribed in Article 63; the same applies hereinafter until Article 54)

(11) Exchange FX Contract<sup>\*1</sup>.

(\*1 referring to the contract set forth in Item 2 of Paragraph 21 of Article 2 of the Act which relates to currency prices; the same applies hereinafter)

3 In these Business Rules<sup>\*1</sup>, the term “stocks and other securities” means, depending on their types, the stocks and other securities stipulated in Paragraph 1 of Article 2 of the Act and the rights which are deemed to constitute such stocks and other securities under the provisions of Paragraph 2 of such Article.

(\*1 including other rules that are prescribed pursuant to these Business Rules)

(Article 4 Non-business Days)

1 JSCC shall have the days set forth in each of the following Items as its holidays<sup>\*1</sup> in respect of the Contracts Subject to Clearing set forth in Item (1) through Item (10) of Paragraph 2 of the preceding Article:

(1) Sundays;

(2) National holidays;

(3) When a national holiday falls on Sunday, the immediately following day which is not a national holiday;

(4) The day which immediately follows and at the same time immediately precedes national holidays;

(5) Saturdays;

(6) The first three days of each year; and

(7) December 31.

(\*1 hereinafter simply referred to as “Non-business Days”)

2 JSCC shall have the days set forth in each of the following Items as its Non-business Days in respect of the Contract Subject to Clearing set forth in Item (11) of Paragraph 2 of the preceding Article<sup>\*1</sup>:

(1) Sundays;

(2) Saturdays;

(3) January 1; and

(4) When January 1 falls on Sunday, the immediately following day.

(\*1 hereinafter referred to as “FX Non-business Days”)

3 Notwithstanding the provisions of the preceding two Paragraphs, when the trading hours or

trading sessions prescribed by the Designated Market Operator are included in any of the days set forth in each Item of the preceding two Paragraphs, JSCC shall conduct the Securities and Similar Contract Clearing Business during those trading hours.

- 4 JSCC may, when it deems necessary, have extraordinary Non-business Days or FX Non-business Days.
- 5 JSCC may, when it deems necessary, extraordinarily suspend or conduct all or part of the operation with respect to the Securities and Similar Contract Clearing Business.
- 6 In the case of the preceding two Paragraphs, JSCC shall notify in advance Clearing Participants and Designated Market Operators to that effect.

Chapter 2 Clearing Participants

Section 1 General Clauses

(Article 5 Clearing Participants)

1 A Clearing Participant means a company which has obtained JSCC's Clearing Qualification.

2 The Clearing Qualification prescribed in the preceding Paragraph consists of four categories of qualifications: Securities Clearing Qualification; JGB Futures Clearing Qualification; Index Futures Clearing Qualification; and FX Clearing Qualification. Each of these qualifications is prescribed in the following Items:

(1) Securities Clearing Qualification is the qualification to become a counterparty in JSCC's Financial Instruments Obligation Assumption Business performed with respect to the Contracts Subject to Clearing listed in Item (1) and Item (7) through Item (10) of Paragraph 2 of Article 3, and to become a counterparty in the buying/selling transaction in respect of the underlying securities resulting from the exercise of the option under Security Option Contract;

(2) JGB Futures Clearing Qualification is the qualification to become a counterparty in JSCC's Financial Instruments Obligation Assumption Business performed with respect to the Contracts Subject to Clearing listed in Item (3) and Item (4) of Paragraph 2 of Article 3;

(3) Index Futures Clearing Qualification is the qualification to become a counterparty in JSCC's Financial Instruments Obligation Assumption Business performed with respect to the Contracts Subject to Clearing listed in Item (2), Item (5) and Item (6) of Paragraph 2 of Article 3; and

(4) FX Clearing Qualification is the qualification to become a counterparty in JSCC's Financial Instruments Obligation Assumption Business performed with respect to the Contracts Subject to Clearing listed in Item (11) of Paragraph 2 of Article 3.

3 In these Business Rules, a company that has obtained Securities Clearing Qualification prescribed in Item (1) of the immediately preceding Paragraph is referred to as "Securities Clearing Participant", a company that has obtained JGB Futures Clearing Qualification prescribed in Item (2) of said Paragraph is referred to as "JGB Futures Clearing Participant", a company that has obtained Index Futures Clearing Qualification prescribed in Item (3) of said Paragraph is referred to as "Index Futures Clearing Participant", and a company that has obtained FX Clearing Qualification prescribed in Item (4) of said Paragraph is referred to as "FX Clearing Participant".

4 With regard to JSCC's Securities and Similar Contract Clearing Business, each category of the Clearing Qualification prescribed in each Item of Paragraph 2 shall be classified into two types of qualifications: one is the clearing qualification that does not authorize the Clearing Participant to operate the Brokerage for Clearing of Securities, etc.\*1; and the other is the

clearing qualification that authorizes the Clearing Participant to operate the Brokerage for Clearing of Securities in accordance with Chapter 3<sup>\*2</sup>. A Clearing Participant with the Principal Clearing Qualification shall be referred to as a Principal Clearing Participant, and a Clearing Participant with the Agency Clearing Qualification shall be referred to as an Agency Clearing Participant.

(\*<sup>1</sup> hereinafter referred to as the "Principal Clearing Qualification")

(\*<sup>2</sup> hereinafter referred to as the "Agency Clearing Qualification")

Section 2 Obtaining Clearing Qualification

(Article 6 Application and Approval for Clearing Qualification)

1 A Financial Instruments Business Operator may apply to JSCC, according to the category of Financial Instruments Business Operator shown in each of the following Items, for the Clearing Qualification prescribed in each Item below, separately by each type of Clearing Qualification it intends to obtain, by specifying whether it applies for the Principal Clearing Qualification or the Agency Clearing Qualification, in accordance with the relevant rules of JSCC. In such case, when the Clearing Qualification to be obtained is Index Futures Clearing Qualification<sup>\*1</sup>, such Clearing Qualification may be applied for only by an entity which either holds Securities Clearing Qualification or has designated a Designated Securities Clearing Participant<sup>\*1</sup>:

(\*1 except for the case where a Financial Instruments Business Operator which does not have trading qualification relating to Security Option Contracts intends to apply for Index Futures Clearing Qualification)

(\*2 referring to a Clearing Participant<sup>\*1-1</sup> (i) which has been designated with respect to a transaction relating to Securities Clearing Qualification as an entity to which the Brokerage for Clearing of Securities, etc. is always commissioned in accordance with the rules of the Designated Market Operator by an entity<sup>\*1-2</sup> which is a trading participant<sup>\*1-3</sup> or a member of a Designated Market Operator, but (ii) which does not have JSCC's Clearing Qualification corresponding to the category of such trading qualification<sup>\*1-4</sup> or membership that such entity holds)

(\*2-1 hereinafter referred to as "Designated Clearing Participant")

(\*2-2 hereinafter referred to as "Non-Clearing Participant")

(\*2-3 in the case where the Designated Market Operator is an institution operating Proprietary Trading System, referring to an entity which is qualified to participate in buying and selling securities; the same applies hereinafter)

(\*2-4 in the case where the Designated Market Operator is an institution operating Proprietary Trading System, referring to the qualification to participate in buying and selling securities; the same applies hereinafter)

(1) A Financial Instruments Business Operator which has obtained registration of the operation with respect to the acts prescribed in Item 1 of Paragraph 1 of Article 28 of the Act:

Securities Clearing Qualification, JGB Futures Clearing Qualification or Index Futures Clearing Qualification

(2) A Financial Instruments Business Operator which has obtained registration of a business relating to the act prescribed in Item 3 of Paragraph 2 of Article 28 of the Act<sup>\*1</sup>

(\*1 in the case of a Financial Instruments Business Operator which intends to be commissioned an Exchange FX Contract, registration of such business as well as the

business relating to the act prescribed in Paragraph 5 of the said Article):

FX Clearing Qualification

2 A Registered Financial Institution\*<sup>1</sup> may apply to JSCC, according to the category of the Clearing Qualification shown below, separately by each type of Clearing Qualification it intends to obtain, by specifying whether it applies for such category of Clearing Qualification as the Principal Clearing Qualification or the Agency Clearing Qualification, in accordance with the relevant rules of JSCC:

(\*<sup>1</sup> referring to the Registered Financial Institution prescribed in Paragraph 11 of Article 2 of the Act; the same applies hereinafter)

(1) Securities Clearing Qualification or Index Futures Clearing Qualification\*<sup>1</sup>; or

(\*<sup>1</sup> Agency Clearing Qualification only)

(2) JGB Futures Clearing Qualification or FX Clearing Qualification.

3 A Securities Finance Company may apply to JSCC for Securities Clearing Qualification in accordance with the relevant rules of JSCC specifying its intention to apply for the Principal Clearing Qualification which is subject to the condition that the scope of the Contracts Subject to Clearing be limited to the transactions listed in each of Item (7) through Item (10) of Paragraph 2 of Article 3.

4 When an application for Clearing Qualification has been filed pursuant to the provisions of the preceding three Paragraphs and JSCC deems as a result of examination that the applicant for the Clearing Qualification is appropriate to be qualified, JSCC shall approve the relevant Clearing Qualification.

5 Notwithstanding the provisions of Paragraphs 1 through 3, a Specified Successor Financial Institution\*<sup>1</sup> may apply to JSCC for a Clearing Qualification according to the procedures as prescribed by JSCC. If such application is made, JSCC may approve the acquisition of the relevant Clearing Qualification by such applicant.

(\*<sup>1</sup> referring to a Specified Successor Financial Institution prescribed in Item (5) of Paragraph 3 of Article 126-34 of the Deposit Insurance Act (Act No. 34 of 1971); the same applies hereinafter)

6 The approval set forth in the preceding two Paragraphs shall be granted designating the date on which the applicant is to obtain the Clearing Qualification.

7 In the case where a new applicant for Securities Clearing Qualification simultaneously applies for Index Futures Clearing Qualification, the latter provision of Paragraph 1 shall be applied by deeming that the applicant has Securities Clearing Qualification. Also, in the case where a new applicant for Index Futures Clearing Qualification is expected to designate a Designated Securities Clearing Participant simultaneously with the application for such Clearing Qualification, the latter provision of Paragraph 1 shall be applied by deeming that the applicant has designated a Designated Securities Clearing Participant.

(Article 7 Criteria for Clearing Qualification)

1 The examination stipulated in Paragraph 4 of the immediately preceding Article with respect to the application set forth in Paragraph 1 or Paragraph 2 of said Article shall be conducted on the matters described in the following Items in respect of the applicant for Clearing Qualification and other matters which are deemed to be necessary for the operation of the Securities and Similar Contract Clearing Business:

(1) Management Structure

The applicant has a sound management structure (e.g., it is not controlled or influenced by a person who is deemed inappropriate taking JSCC's operation of the Securities and Similar Contract Clearing Business into account) such that the credibility of JSCC's Securities and Similar Contract Clearing Business among the general public can be expected to be sufficiently protected;

(2) Financial Basis

The applicant is expected to fulfill the requirements set forth in either of A) or B) below in accordance with the classification of A) and B), and to have stable profitability as Clearing Participant by the date on which the applicant is to obtain the Clearing Qualification;

A) Financial Instruments Business Operator:

- (a) The amount of its stated capital is not less than 300 million yen;
- (b) The amount of its net worth is not less than 2 billion yen<sup>\*1</sup> and is larger than its stated capital;

(\*1 20 billion yen in the case of the Agency Clearing Qualification)

- (c) The Capital-to-Risk Ratio<sup>\*1</sup> is more than 200 percent; and

(\*1 in the case of an entity which does not engage in the act set forth in Item 1 of Paragraph 1 of Article 28 of the Act as business, referring to the ratio determined by applying *mutatis mutandis* Paragraph 1 of Article 46-6 of the Act; the same applies hereinafter)

- (d) In the case of a Special Financial Instruments Business Operator<sup>\*1</sup>, the consolidated Capital-to-Risk Ratio is more than 200 percent.

(\*1 limited to a person filed the notification under Paragraph 2 of Article 57-5 of the Act; the same applies hereinafter)

B) Registered Financial Institutions:

- (a) The amount of its stated capital or the total amount of capital contribution<sup>\*1</sup> is not less than 300 million yen;

(\*1 in the case of a mutual company, the total amount of the foundation fund<sup>\*1-1</sup>)

(\*1-1 including the amount of reserve for redemption of the foundation fund)

- (b) The amount of its net assets is not less than 2 billion yen<sup>\*1</sup> and is larger than its stated capital or total amount of capital contribution<sup>\*2</sup>;

(\*1 20 billion yen in the case of the Agency Clearing Qualification)

(\*2 in the case of a mutual company, the total amount of the foundation fund<sup>\*2-1</sup>)

(\*2-1 including the amount of reserve for redemption of the foundation fund)

- (c) In the case of the Registered Financial Institution subject to Uniform International Standards, , it satisfies the requirements set forth in a. to c. below (in the case where it is a foreign bank, the requirements equivalent thereto):
- a. Its non-consolidated or consolidated Common Equity Tier 1 ratio<sup>\*1</sup> exceeds 4.5 percent;  
(\*<sup>1</sup> for a institution which operates with investment from its members, its non-consolidated or consolidated common capital contribution Tier 1 ratio; the same shall apply hereinafter)
  - b. Its non-consolidated or consolidated Tier 1 ratio exceeds 6 percent; and
  - c. Its non-consolidated or consolidated Total Capital ratio exceeds 8 percent; and
- (d) In the case of a Registered Financial Institution other than those subject to Uniform International Standards, foreign banks and insurance companies<sup>\*1</sup>, its non-consolidated or consolidated capital adequacy ratio under the domestic standards exceeds 4 percent; and  
(\*<sup>1</sup> hereinafter referred to as “Financial Institution subject to Japanese Standard”)
- (e) In the case where the Registered Financial Institution is an insurance company, its non-consolidated or consolidated solvency margin ratio exceeds 400 percent.

### (3) Business Execution Structure

The applicant has an appropriate structure for business execution regarding the settlement of the Contracts Subject to Clearing in respect of the assumption of obligations set forth in Article 46<sup>\*1</sup>; the management of the risk of loss; and the compliance with the Laws and Regulations<sup>\*2</sup>, dispositions of the administrative agencies based on the Laws and Regulations, these Business Rules and other rules.

(\*<sup>1</sup> including buying/selling the underlying securities resulting from the exercise of the option under Security Option Contract, JGB Futures Contract resulting from the exercise of the option under Option Contract on JGB Futures prescribed in Item (4) of Paragraph 2 of Article 3, the transaction resulting from the exercise of the option under Index Option Contract prescribed in Item (6) of said Paragraph, the transaction with respect to the obligation which is newly incurred as a result of the completion of the Give-up prescribed in Article 46-2, and the securities borrowing/lending pursuant to the provisions of Article 64; hereinafter referred to as “Contracts for Clearing”)

(\*<sup>2</sup> referring to the Act and related laws and regulations; the same applies hereinafter)

2 The examination stipulated in Paragraph 4 of the immediately preceding Article with respect to the application set forth in Paragraph 3 of said Article shall be conducted on the matters described in the following Items in respect of the applicant for Clearing Qualification and other matters which are deemed necessary for the operation of the Securities and Similar Contract Clearing Business:

(1) Financial Basis

The applicant is expected to fulfill the requirements set forth below and to have stable profitability as Clearing Participant by the date on which it is to obtain the Clearing Qualification:

- A) The amount of its stated capital is not less than 100 million yen;
- B) The amount of its net assets is not less than 2 billion yen and is larger than its stated capital; and

(2) The matters set forth in Item (1) and Item (3) of the preceding Paragraph.

(Article 8 Completion of Procedures for Obtaining Clearing Qualification)

1 When JSCC has approved Clearing Qualification pursuant to the provisions of Paragraph 4 of Article 6, JSCC shall cause the applicant for the Clearing Qualification to deposit a clearing fund and complete other procedures for obtaining the Clearing Qualification as prescribed by JSCC by the day<sup>\*1</sup> which immediately precedes the date designated by JSCC pursuant to the provisions of Paragraph 6 of said Article.

(\*1 if such day falls on a Non-business Day, the day shall be the immediately preceding business day; the same applies hereinafter except for Item (2) and Item (4) of Paragraph 3 of Article 64)

2 When the applicant<sup>\*1</sup> did not complete the procedures set forth in the preceding Paragraph by the day immediately preceding the date designated by JSCC pursuant to the provisions of Paragraph 6 of Article 6, the application for the Clearing Qualification shall be deemed to have been withdrawn.

(\*1 Excluding an applicant who is a Specified Successor Financial Institution)

3 When JSCC approves the Clearing Qualification pursuant to Paragraph 5 of Article 6, JSCC shall have the applicant for the Clearing Qualification deposit Clearing Funds and follow other procedures for acquisition of Clearing Qualification as required by JSCC.

(Article 9 Date of Obtaining Clearing Qualification)

1 When the applicant for Clearing Qualification has completed the procedures set forth in Paragraph 1 or 3 of the preceding Article<sup>\*1</sup>, JSCC shall grant the Clearing Qualification in respect of the relevant application on the date designated by JSCC pursuant to the provisions of Paragraph 6 of Article 6.

(\*1 in respect of the procedures under Paragraph 3 of the preceding Article, the provisions of this Paragraph shall apply only for the procedures which JSCC requires the applicant to follow by the date designated by JSCC pursuant to the provisions of Paragraph 6 of Article 6)

2 When JSCC grants the applicant Clearing Qualification pursuant to the preceding Paragraph, JSCC shall notify to that effect to each Clearing Participant having the Clearing Qualification of the same category and to each Designated Market Operator which operates the Financial Instruments Market with respect to the Contracts Subject to Clearing

pertaining to that category of the Clearing Qualification.

(Article 10 Handling of Unsettled Contracts When Non-Clearing Participant Obtains Clearing Qualification)

When a Non-Clearing Participant becomes a Clearing Participant by obtaining the Clearing Qualification corresponding to such trading qualification or membership pursuant to Paragraph 1 of the preceding Article, such Non-Clearing Participant shall take over its unsettled Contracts for Clearing, which are pursuant to the commissions of the Brokerage for Clearing of Securities, etc., from the Designated Clearing Participant.

(Article 10-2 Change to Category of Clearing Qualification)

Provisions of Paragraph 1, Paragraph 2, Paragraph 4 and Paragraph 5 of Article 6, Article 7, Article 9, Paragraph 2 of Article 23 and Article 26 shall apply *mutatis mutandis* to the case when a Clearing Participant changes the category of Clearing Qualification held by it. In such case, the phrase “apply for Clearing Qualification” in Paragraph 1, Paragraph 2 and Paragraph 4 of Article 6 shall be deemed to be “apply for change to the category of Clearing Qualification”, the phrase “applicant for Clearing Qualification” in the Paragraph 4 of Article 6 and Article 7 and Article 9 shall be deemed to be “applicant for change to the category of Clearing Qualification”, the phrase “date on which the applicant is to obtain the Clearing Qualification” in Paragraph 5 of Article 6 and Item (2) of Paragraph 1 of Article 7 shall be deemed to be “date on which the applicant is to change the category of the Clearing Qualification”, the phrase “grant the Clearing Qualification” in Paragraph 1 of Article 9 shall be deemed to be “change the category of the Clearing Qualification”, the phrase “grants the applicant Clearing Qualification” in Paragraph 2 of such Article shall be deemed to be “changes the category of the Clearing Qualification”, the phrase “applies for renouncing” in Paragraph 2 of Article 23 shall be deemed to be “applies for change to the category of Clearing Qualification to Principal Clearing Qualification”, and the word “renunciation” in Article 26 shall be deemed to be “change to the category” respectively.

Section 3 Obligation of Clearing Participants

(Article 11 Conclusion of Clearing Participant Agreement)

A Clearing Participant shall enter into the Clearing Participant Agreement prescribed by JSCC with JSCC.

(Article 12 Clearing Participant's Representative)

1 A Clearing Participant shall, in accordance with the rules of JSCC, register with JSCC in advance an individual, among its representative directors or representative executive officers\*<sup>1</sup>, who is appropriate to represent the Clearing Participant vis-à-vis JSCC as the Clearing Participant's representative.

(\*<sup>1</sup>if Clearing Participant is a foreign Financial Instruments Business Operator or a foreign bank, from among its representatives in Japan holding a position at least equal to a director or an executive officer)

2 Only Clearing Participant's representative shall represent the Clearing Participant vis-à-vis JSCC; provided, however, that as for daily routine operations, a Clearing Participant may have a deputy for daily routine operations engaging in those operations specifying in advance the scope of such operations and registering such person with JSCC.

(Article 13 Person in Charge of Settlement Operation)

A Clearing Participant shall designate an individual from among its directors, officers or employees to be in charge of supervising the operation of the settlement of Contracts for Clearing, and register such individual with JSCC in accordance with the rules of JSCC.

(Article 14 Cooperative or Controlling Relationship with Directors, Officers, or Other Persons)

1 When JSCC deems that a cooperative or controlling relationship with a director, officer or other person of a Clearing Participant is inappropriate taking into account JSCC's operation of the Securities and Similar Contract Clearing Business, JSCC may conduct a hearing to the Clearing Participant and request for a change presenting the reason therefore; provided, however, that if the Clearing Participant submits a written statement, such submission may substitute the hearing.

2 The procedures of the hearing prescribed in the preceding Paragraph shall be in accordance with the rules of JSCC.

3 When the Clearing Participant refuses the hearing set forth in Paragraph 1 without a justifiable reason, JSCC may request for the change set forth in said Paragraph without a hearing.

4 When the Clearing Participant deems that the request for a change pursuant to Paragraph 1 is unwarranted, the Clearing Participant may file a petition in writing against such request with JSCC presenting the reason therefor within 10 days after the receipt of the notice of

the request for a change.

5 When JSCC receives the petition set forth in the preceding Paragraph, it shall convene a meeting of its board of directors without delay.

6 If, at the meeting of the board of directors set forth in the preceding Paragraph, it was deemed appropriate to modify or withdraw the request for a change set forth in Paragraph 1, such request for a change shall be immediately modified or withdrawn.

(Article 15 Payment of Fees by Clearing Participant)

A Clearing Participant shall pay the fees prescribed by the rules of JSCC to JSCC in accordance with those rules.

(Article 15-2 Deposit of Initial Margin)

1 A Clearing Participant shall deposit with JSCC, in accordance with the rules of JSCC, the initial margin, by each category prescribed in each of the following Items, for the purpose of ensuring performance of its obligations owed to JSCC:

- (1) An initial margin relating to Securities Clearing Qualification; and
- (2) An initial margin relating to JGB Futures Clearing Qualification.

2 When the deposited balance of the initial margin falls short of the required amount of the initial margin as prescribed by the rules of JSCC, the Clearing Participant shall deposit with JSCC an amount at least equal to such shortfall by 2 P.M. on the day\*<sup>1</sup> which immediately follows the day on which such shortfall occurs.

(\*<sup>1</sup> if such day falls on a Non-business Day, it shall be the immediately following business day; the same applies hereinafter)

3 Securities\*<sup>1</sup> may be deposited in lieu of cash as initial margin in accordance with the rules of JSCC.

(\*<sup>1</sup> limited to the securities which are deemed appropriate by JSCC taking the liquidity and other factors into account)

4 The substituting price of the securities stipulated in the preceding Paragraph shall be calculated by multiplying the market price, as determined by JSCC, as of the day\*<sup>1</sup> which precedes the date of the deposit by two days, by a certain rate determined by JSCC; provided, however, that JSCC may extraordinarily change the substituting price, when JSCC deems it particularly necessary to do so, such as in the case of an excessive fluctuation in the market.

(\*<sup>1</sup> if such day falls on a Non-business Day, it shall be the immediately preceding business day; the same applies hereinafter)

5 In addition to the provisions of the preceding two Paragraphs, matters concerning the securities to be deposited in lieu of cash as initial margin shall be prescribed by JSCC.

(Article 15-3 Intraday Deposit of Initial Margin)

- 1 If an event occurs which is prescribed by JSCC as an event that the market of transaction relating to Securities Clearing Qualification has shown excessive fluctuation during any day session or if JSCC otherwise determines it necessary to do so, when the deposited balance of the initial margin deposited with JSCC falls short of the required amount of initial margin (the intraday amount) as prescribed by the rules of JSCC, the relevant Clearing Participant shall additionally deposit with JSCC an amount at least equal to such shortfall by 4:00 P.M. of the same day as initial margin.
- 2 Notwithstanding the provisions of the preceding Paragraph, a Clearing Participant with respect to which the required amount of initial margin (the intraday amount) minus the required amount of initial margin set forth in Paragraph 2 of the preceding Article is less than 30,000,000 yen shall not be obligated to make additional deposit of the initial margin as required under the preceding Paragraph.
- 3 When JSCC causes to be made an additional deposit of initial margin pursuant to the provisions of Paragraph 1, it shall notify the relevant Clearing Participant to such effect promptly after 11:00 A.M. of the same day.

(Article 15-4 Increase in Required Amount of Initial Margin)

- 1 If the Risk Amount<sup>\*1</sup> considered to be attached to Unsettled Contracts<sup>\*2</sup> in transactions relating to Securities Clearing Qualification of a Clearing Participant exceeds Margin Increase Trigger Base Amount<sup>\*3</sup>, JSCC may increase the required amount of initial margin as prescribed by the rules of JSCC.  
(<sup>\*1</sup> referring to the amount prescribed by the rules of JSCC.)  
(<sup>\*2</sup> referring to the contracts which remain unsettled; the same applies hereinafter.)  
(<sup>\*3</sup> referring to the amount prescribed by the rules of JSCC.)
- 2 The Risk Amount set forth in the preceding Paragraph shall be calculated for transactions relating to Securities Clearing on each business day and after the close of the morning session on each business day, and JSCC will determine whether to increase the required amount of initial margin based on the calculation result of such Risk Amount.
- 3 If, due to an increase of the required amount of initial margin as a result of the calculation of the Risk Amount for a business day as set forth in the preceding Paragraph, the deposited balance of initial margin deposited by a Clearing Participant with JSCC falls short of the required amount of initial margin after the increase, the relevant Clearing Participant shall additionally deposit with JSCC an amount at least equal to such shortfall by 2:00P.M. on the next day following the day such shortfall occurred.
- 4 If, due to an increase of the required amount of initial margin as a result of the calculation of the Risk Amount after the close of the morning session on a business day as set forth in Paragraph 2, the deposited balance of initial margin deposited by a Clearing Participant with JSCC falls short of the required amount of initial margin after the increase, the relevant Clearing Participant shall additionally deposit with JSCC an amount at least equal to such

shortfall by 4:00P.M. on the same day.

(Article 16 Deposit of Clearing Fund)

1 A Clearing Participant shall deposit with JSCC, in accordance with the rules of JSCC, the clearing funds, by each category prescribed in each of the following Items, for the purpose of ensuring performance of its obligations owed to JSCC, and applying to compensation for any loss suffered by JSCC as set forth in these Business Rules in the event of JSCC acknowledging default, etc. of any other Clearing Participant:

(1) A clearing fund relating to Securities Clearing Qualification, JGB Futures Clearing Qualification or Index Futures Clearing Qualification<sup>\*1</sup>; and

(\*1 hereinafter referred to as "Securities, Futures and Option Clearing Fund")

(2) A clearing fund relating to FX Clearing Qualification<sup>\*1</sup>.

(\*1 hereinafter referred to as "FX Clearing Fund")

2 When the deposited balance of the Securities, Futures and Option Clearing Fund falls short of the required amount of the Securities, Futures and Option Clearing Fund as prescribed by the rules of JSCC, or when the deposited balance of the FX Clearing Fund falls short of the required amount of the FX Clearing Fund as prescribed by the rules of JSCC, the Clearing Participant shall deposit with JSCC an amount at least equal to such shortfall by 2 P.M. on the day which immediately follows the day on which such shortfall occurs.

3 Securities<sup>\*1</sup> may be deposited in lieu of cash as clearing fund in accordance with the rules of JSCC.

(\*1 limited to the securities which are deemed appropriate by JSCC taking the liquidity and other factors into account)

4 The substituting price of the securities stipulated in the preceding Paragraph shall be calculated by multiplying the market price, as determined by JSCC, as of the day which precedes the date of the deposit by two days, by a certain rate determined by JSCC; provided, however, that JSCC may extraordinarily change the substituting value, when JSCC deems it particularly necessary to do so, such as in the case of an excessive fluctuation in the market.

5 In addition to the provisions of the preceding two Paragraphs, matters concerning the securities to be deposited in lieu of cash as clearing fund shall be prescribed by JSCC.

(Article 17) - Deleted)

(Article 18 Liability for Securities and Similar Contract Clearing Business)

JSCC shall not be held liable to indemnify Clearing Participant for the damages suffered by it in the course of its business operation in relation to the Securities and Similar Contract Clearing Business performed by JSCC unless a willful misconduct or gross negligence on the part of JSCC is found.

## (Article 19 Matters to be Notified)

When a Clearing Participant intends to carry out any of the following acts, it shall notify JSCC of the details in advance in accordance with the rules of JSCC:

(1) The acts set forth in A) or B) below according to the category of the Clearing Participant as set forth therein:

A) Securities Clearing Participant, JGB Futures Clearing Participant or Index Futures Clearing Participant - any of the acts set forth in (a) through (c) below according to the category set forth therein within which it falls:

(a) In the case of a Financial Instruments Business Operator:

Discontinuance of the operations prescribed in Item 1 of Paragraph 1 of Article 28 of the Act

(b) In the case of a Registered Financial Institution:

Discontinuance of the Registered Financial Institution Business\*<sup>1</sup>

(\*<sup>1</sup>referring to the Registered Financial Institution Business prescribed in Item 3 of Paragraph 1 of Article 33-5 of the Act; the same shall apply hereinafter)

(c) In the case of a Securities Finance Company:

Discontinuance of the operations prescribed in Paragraph 1 of Article 156-24 of the Act

B) FX Clearing Participant - any of the acts set forth in (a) through (c) below according to the category set forth therein within which it falls:

(a) In the case of a Financial Instruments Business Operator\*<sup>1</sup>:

(\*<sup>1</sup>excluding those falling within the category of (b) below)

Discontinuance of the operations prescribed in Item 3 of Paragraph 2 of Article 28 of the Act

(b) In the case of a Financial Instruments Business Operator\*<sup>1</sup>:

(\*<sup>1</sup>limited to those to whom an Exchange FX Contract is commissioned)

Discontinuance of the operations prescribed in Item 3 of Paragraph 2 of Article 28 of the Act or Paragraph 5 of the same Article

(c) In the case of a Registered Financial Institution:

Discontinuance of the Registered Financial Institution Business

(2) Merger in which the Clearing Participant becomes a disappearing corporation and is merged into another company, and merger in which the Clearing Participant merges with another company and establishes a new company;

(3) Dissolution of the Clearing Participant due to any reason other than merger or decision to commence bankruptcy proceeding;

(4) Succession by another company of all or a part of the Business\*<sup>1</sup> of the Clearing Participant due to a corporate divestiture;

(\*<sup>1</sup>referring to the business relating to the Registered Financial Institution Business in

the case of a Registered Financial Institution, and to the business relating to the operations prescribed in Paragraph 1 of Article 156-24 of the Act in the case of a Securities Finance Company; the same applies in this Article and Paragraph 5 of Article 29)

- (5) Transfer of all or a part of the Business;
- (6) Merger in which the Clearing Participant becomes a surviving company after being merged with another company;
- (7) Succession of all or a part of the Business from another company due to a corporate divestiture;
- (8) Acquisition of all or a part of the Business;
- (9) Change in the trade name or corporate name\*<sup>1</sup>;  
(\*<sup>1</sup> including a change in the trade name or corporate name in English)
- (10) Change in the composition of its directors or officers; or
- (11) Change in the address of its headquarters or principal office.

2 In addition to the provisions set forth in the preceding Paragraph, when an Agency Clearing Participant is to discontinue the operations in respect of the Brokerage for Clearing of Securities, etc., it shall notify JSCC of the details in advance in accordance with the rules of JSCC.

(Article 20 Matters to be Reported)

When a Clearing Participant falls under the circumstances prescribed by JSCC, it shall immediately report the details to JSCC.

(Article 21 Examination on Clearing Participant)

In the event which is stipulated in each Item provided below, or if JSCC deems it necessary to do so for its operation of the Securities and Similar Contract Clearing Business, JSCC may request Clearing Participant to submit a report or document which should serve as reference regarding the business, operation, or assets of the Clearing Participant, or may cause its employees to inspect the Clearing Participant's business, operation, financial condition, books, documents, or other materials:

- (1) In the event JSCC conducts an examination on the status of the Clearing Participant's compliance with these Business Rules or other rules;
- (2) In the event JSCC conducts an examination on the financial condition of the Clearing Participant;
- (3) In the event JSCC conducts an examination on the certainty about the performance of the Clearing Participant's obligation owed to JSCC; and
- (4) In the event JSCC is requested by Designated Market Operator to provide information with regards to an examination aiming at securing fairness in buying/selling securities, other transactions and the like, and JSCC deems it appropriate to respond to such

request.

Section 4 Renunciation/Forfeiture of Clearing Qualification

(Article 22 Application for Renouncing Clearing Qualification)

- 1 When a Clearing Participant intends to renounce its Clearing Qualification, it shall apply for the renunciation with respect to each category of the Clearing Qualification to be renounced in accordance with the rules of JSCC.
- 2 When an Index Futures Clearing Participant\*<sup>1</sup> intends to renounce its Securities Clearing Qualification, such Index Futures Clearing Participant shall simultaneously apply for renouncing its Index Futures Clearing Qualification, unless such Index Futures Clearing Participant is expected to designate a Designated Securities Clearing Participant simultaneously with the renouncement of its Securities Clearing Qualification.  
(\*<sup>1</sup>excluding an Index Futures Clearing Participant which does not hold a trading qualification relating to a Security Option Contract)
- 3 When an Index Futures Clearing Participant\*<sup>1</sup> intends to terminate a Contract for Commissioning Clearance\*<sup>2</sup> entered into with a Designated Securities Clearing Participant, it shall apply for renouncing its Index Futures Clearing Qualification prior to the termination, unless such Index Futures Clearing Participant obtains Securities Clearing Qualification or designates another Clearing Participant as Designated Securities Clearing Participant simultaneously with the termination of the Contract for Commissioning Clearance.  
(\*<sup>1</sup>excluding an Index Futures Clearing Participant which does not hold a trading qualification relating to a Security Option Contract)  
(\*<sup>2</sup> referring to the Contract for Commissioning Clearance prescribed in Article 39; the same applies hereinafter until Article 34)

(Article 22-2 Exceptional Treatment of Application for Renouncing Clearing Qualification Associated with Secession of Exchange FX Contracts)

When a Designated Market Operator intends to cease trading of Exchange FX Contracts\*<sup>1</sup>, and no other Designated Market Operator operates a market for Exchange FX Contracts, then, notwithstanding the provisions of Paragraph 1 of the preceding Article, Clearing Participants holding FX Clearing Qualification at the time of such secession shall be deemed to have applied for renouncing such FX Clearing Qualification as of the date designated by JSCC.

(\*<sup>1</sup> referring to a secession of Exchange FX Contracts stipulated by the Designated Market Operator)

(Article 23 Handling of Unsettled Contract of Participant Renouncing Clearing Qualification)

- 1 When a Clearing Participant applies for renouncing its Clearing Qualification, it shall completely dissolve beforehand all the Contracts for Clearing pertaining to the relevant Clearing Qualification which remain unsettled.

2 When an Agency Clearing Participant applies for renouncing the Agency Clearing Qualification, it shall beforehand terminate all the Contracts for Commissioning Clearance\*<sup>1</sup> pertaining to the relevant Clearing Qualification.

(Article 24 Exception in the case of Merger, etc. of Participant Renouncing Clearing Qualification)

1 In the event which is set forth in Paragraph 1 of the preceding Article, the Clearing Participant may choose not to dissolve the unsettled Contracts for Clearing to the extent permitted by JSCC notwithstanding the provisions of said Paragraph if JSCC determines that it is unnecessary to dissolve all of the unsettled Contracts for Clearing pertaining to the relevant Clearing Qualification of the Clearing Participant in such circumstances as that, simultaneously with the renunciation of the Clearing Qualification, the relevant Clearing Participant is merged into, or causes its business through a corporate divestiture to be succeeded by, or causes its business to be transferred to, another company that is going to obtain or has already obtained the Clearing Qualification of the same category as that of the relevant Clearing Participant.

2 In the event which is set forth in Paragraph 2 of the preceding Article, the Agency Clearing Participant may choose not to cause every Contract for Commissioning Clearance concluded by it to be terminated to the extent permitted by JSCC notwithstanding the provisions of said Paragraph if JSCC determines that it is unnecessary to terminate all the Contracts for Commissioning Clearance pertaining to the relevant Agency Clearing Qualification of the Agency Clearing Participant in such circumstances as that, simultaneously with the renunciation of the Agency Clearing Qualification, the relevant Agency Clearing Participant is merged into, or causes its business through a corporate divestiture to be succeeded to by, or causes its business to be transferred to, another company that is going to obtain or has already obtained the Agency Clearing Qualification of the same category as that of the relevant Agency Clearing Participant.

(Article 25 Suspension of Assumption of Obligation for the Participant Renouncing Clearing Qualification)

1 From the day immediately following the day on which JSCC receives an application for renouncing Clearing Qualification from a Clearing Participant\*<sup>1</sup>, JSCC shall stop assuming new obligations\*<sup>2</sup> under the Contracts Subject to Clearing which pertain to the relevant Clearing Qualification and to which the relevant Clearing Participant is a party.

(\*<sup>1</sup> where the Clearing Qualification for which renunciation is applied is a Securities Clearing Qualification, JGB Futures Clearing Qualification or Index Futures Clearing Qualification and such day falls on a Non-business Day, or where the Clearing Qualification for which renunciation is applied is an FX Clearing Qualification and such day falls on an FX Non-business Day, it shall be the immediately following business day)

(\*<sup>2</sup> including the obligation to be incurred as a result of the completion of the Give-up prescribed in Article 46-2, the same applies hereinafter)

- 2 Notwithstanding the provisions of the preceding Paragraph if JSCC determines that it is unnecessary to dissolve the unsettled Contracts for Clearing of the Clearing Participant in such circumstances as that, simultaneously with the renunciation of the Clearing Qualification, the relevant Clearing Participant is merged into, or causes its business through a corporate divestiture to be succeeded by, or causes its business to be transferred to, another company that is going to obtain or has already obtained the Clearing Qualification of the same category as that of the relevant Clearing Participant; JSCC may choose not to stop assuming all or a part of the obligations under the Contracts Subject to Clearing to which the relevant Clearing Participant applying for renouncing the Clearing Qualification is a party.

(Article 26 Approval for Renunciation of Clearing Qualification)

- 1 The approval of the renunciation of Clearing Qualification shall be made by JSCC by designating a particular date in the future and the relevant Clearing Qualification shall be nullified on that date.
- 2 In the event JSCC has approved the renunciation of Clearing Qualification, JSCC shall notify to that effect to all the other Clearing Participants having the Clearing Qualification of the same category and to the Designated Market Operator which operates the Financial Instruments Market with regards to the Contracts Subject to Clearing pertaining to the relevant Clearing Qualification.

(Article 27 Refund of Clearing Fund upon Renunciation of Clearing Qualification)

- 1 When a Clearing Participant renounces all of the Securities Clearing Qualification, JGB Futures Clearing Qualification and Index Futures Clearing Qualification\*<sup>1</sup>, JSCC shall refund the Securities, Futures and Option Clearing Fund after the date of the renunciation; provided, however, that if there remains unsettled Contracts for Clearing of the Clearing Participant which has renounced such Clearing Qualifications, or if JSCC otherwise deems it necessary, JSCC may suspend the refund of the Securities, Futures and Option Clearing Fund until such reason ceases to exist.

(\*<sup>1</sup> including renunciation due to a revocation of Clearing Qualification; the same applies hereinafter in this Article and the following Article)

- 2 When a Clearing Participant renounces the FX Clearing Qualification\*<sup>1</sup>, JSCC shall refund the FX Clearing Fund after the date of the renunciation; provided, however, that if there remains unsettled Contracts for Clearing of the Clearing Participant which has renounced such Clearing Qualification, or if JSCC otherwise deems it necessary, JSCC may suspend the refund of the FX Clearing Fund until such reason ceases to exist.

(\*<sup>1</sup> including renunciation due to a revocation of Clearing Qualification; the same applies

hereinafter in this Article and the following Article)

(Article 28 Performance of Obligation upon Nullification of Clearing Qualification)

The entity that has lost its Clearing Qualification shall apply the money and securities to be returned from JSCC toward the satisfaction of all of its obligations owed to JSCC as Clearing Participant.

(Article 28-2 Application of These Business Rules upon Renunciation of Clearing Qualification)

When a Clearing Participant renounces its Clearing Qualification, if there remain any claim or obligation arising from any cause before such renunciation, the provisions of these Business Rules<sup>\*1</sup> shall apply to such claims and obligations.

(\*1 including any rules and regulations promulgated hereunder)

Section 5 Measures to be Taken with respect to Clearing Participants, etc.

(Article 29 Measures to be Taken with respect to Clearing Participants)

1 When JSCC deems that a Clearing Participant falls under any of the following Items, JSCC may conduct a hearing for the relevant Clearing Participant and take the measures to prohibit the Cross Margining Request<sup>\*1</sup>, to issue the Instructions for Improvement<sup>\*2</sup>, to suspend the assumption of all or a part of the obligations under the Contracts Subject to Clearing to which such Clearing Participant is a party, or to revoke the Clearing Qualification of such Clearing Participant presenting the reason therefor. In such event, the revocation of the Clearing Qualification shall require a resolution adopted at the meeting of the board of directors:

(\*1 referring to the Cross Margining Request set forth in Paragraph 1 of Article 73-15-2; the same applies in Article 34)

(\*2 referring to the instructions issued to the relevant Clearing Participant regarding improvements to be made to its business execution structure, etc., to the extent deemed necessary and appropriate for JSCC's operation of the Securities and Similar Contract Clearing Business; the same applies hereinafter)

- (1) When the Clearing Participant does not submit the notification set forth in Article 19, or the report set forth in Article 20, or submits any false notification/report;
- (2) When the Clearing Participant refuses, prevents or evades the examination set forth in Article 21, or does not submit the report/document or submits any false report/document pursuant to such Article;
- (3) When its business execution structure is deemed to be flawed; and
- (4) In addition to the events described in the preceding Items, when the Clearing Participant violates these Business Rules, other rules, or measures taken pursuant to the foregoing, or when JSCC deems it necessary taking into account its operation of the Securities and Similar Contract Clearing Business if the Clearing Participant damages the reputation of JSCC or other Clearing Participants.

2 When a Clearing Participant falls under any of the following Items, JSCC may conduct a hearing for the relevant Clearing Participant and take the measures to suspend the assumption of all or a part of the obligations under the Contracts Subject to Clearing to which such Clearing Participant is a party and/or any other measures deemed necessary and appropriate by JSCC, presenting the reason therefor:

- (1) When the Clearing Participant refuses to comply with a request made pursuant to the provisions of Article 14 to change the cooperative or controlling relationship with a director, officer or other person;
- (2) When a majority of the voting rights<sup>\*1</sup> of all the shareholders or a majority of the voting rights relating to capital contributions has come to be held by a person or persons who is or are deemed to be inappropriate taking JSCC's operation of the Securities and Similar

Contract Clearing Business into account; or

(\*<sup>1</sup> including the voting rights pertaining to the shares which are deemed to have voting rights pursuant to Paragraph 3 of Article 879 of the Companies Act (Act No. 86 of 2005), but excluding the voting rights pertaining to the shares whose voting rights cannot be exercised on any of the matters that may be resolved on at general meetings of shareholders)

- (3) When a person holding the same or greater degree of control over the Clearing Participant as or than that held by a director or an executive officer —whether such person holds a title of consultant, advisor or otherwise— is deemed to be inappropriate taking JSCC's operation of the Securities and Similar Contract Clearing Business into account.

3 When a Clearing Participant falls under any of the following Items, JSCC may conduct a hearing for the relevant Clearing Participant and take the measures to suspend the assumption of all or a part of the obligations under the Contracts Subject to Clearing to which such Clearing Participant is a party until the relevant condition ceases to exist:

- (1) When the amount of its stated capital or the total amount of capital contributions\*<sup>1</sup> becomes less than 300 million yen\*<sup>2</sup> and a swift recovery from such condition cannot be expected;

(\*<sup>1</sup> in the case of a mutual company, the total amount of the foundation fund\*<sup>1-1</sup>)

(\*<sup>1-1</sup> including the amount of reserve for redemption of the foundation fund)

(\*<sup>2</sup> in the case of a Securities Finance Company which has obtained the Clearing Qualification pursuant to the application made under Paragraph 3 of Article 6, 100 million yen)

- (2) When the amount of its net worth\*<sup>1</sup> becomes less than 300 million yen and a swift recovery from such condition cannot be expected;

(\*<sup>1</sup> in the case of a Registered Financial Institution and a Securities Finance Company, the amount of its net assets)

- (3) In the case of a Financial Instruments Business Operator, when its Capital-to-Risk Ratio becomes less than 120 percent and a swift recovery from such condition cannot be expected;

- (4) In the case of a Special Financial Instruments Business Operator, when its consolidated Capital-to-Risk Ratio becomes less than 120 percent and a swift recovery from such condition cannot be expected;

- (5) In the case of a Registered Financial Institution subject to Uniform International Standards, when any one of the events set forth in A) to C) below occurs with respect to it\*<sup>1</sup>:

(\*<sup>1</sup> in the case of a foreign bank, any event equivalent thereto occurs and JSCC determines it necessary)

- A) Its non-consolidated or consolidated Common Equity Tier 1 ratio becomes

- less than 2.25 percent and a swift recovery from such condition cannot be expected;
- B) Its non-consolidated or consolidated Tier 1 ratio becomes less than 3 percent and a swift recovery from such condition cannot be expected; or
  - C) Its non-consolidated or consolidated Total Capital ratio becomes less than 4 percent and a swift recovery from such condition cannot be expected;
- (6) In the case of a Financial Institution subject to Japanese Standard<sup>\*1</sup>, when its non-consolidated or consolidated capital adequacy ratio under the domestic standards becomes less than 2 percent and a swift recovery from such condition cannot be expected; and
- (<sup>\*1</sup> excluding any Registered Financial Institution which has obtained the Clearing Qualification pursuant to the application made under Paragraph 3 of Article 6, if such Registered Financial Institution is a Securities Finance Company)
- (7) In the case of an insurance company, when its non-consolidated or consolidated solvency margin ratio becomes less than 100 percent and a swift recovery from such condition cannot be expected.
- 4 In the case where a Clearing Participant is an Agency Clearing Participant and falls under any of the following Items, JSCC may conduct a hearing for the relevant Clearing Participant and take the measures to suspend the assumption of all or a part of the obligations<sup>\*1</sup> under the Contracts Subject to Clearing to which such Clearing Participant is a party until the relevant condition ceases to exist:
- (<sup>\*1</sup> limited to the obligations relating to the Brokerage for Clearing of Securities, etc.)
- (1) When the amount of its net worth<sup>\*1</sup> becomes less than 20 billion yen and a swift recovery from such condition cannot be expected;  
(<sup>\*1</sup> in the case of a Registered Financial Institution, the amount of its net assets)
  - (2) In the case of a Financial Instruments Business Operator, when its Capital-to-Risk Ratio becomes less than 200 percent and a swift recovery from such condition cannot be expected;
  - (3) In the case of a Special Financial Instruments Business Operator, when its consolidated Capital-to-Risk Ratio becomes less than 200 percent and a swift recovery from such condition cannot be expected;
  - (4) In the case of a Registered Financial Institution subject to Uniform International Standards, when any one of the events set forth in A) to C) below occurs with respect to it<sup>\*1</sup>:  
(<sup>\*1</sup> in the case of a foreign bank, when any event equivalent thereto occurs and JSCC determines it necessary)
    - A) Its non-consolidated or consolidated Common Equity Tier 1 ratio becomes less than 4.5 percent and a swift recovery from such condition cannot be expected;

- B) Its non-consolidated or consolidated Tier 1 ratio becomes less than 6 percent and a swift recovery from such condition cannot be expected; or
  - C) Its non-consolidated or consolidated Total Capital ratio becomes less than 8 percent and a swift recovery from such condition cannot be expected;
- (5) In the case of a Financial Institution subject to Japanese Standard, when its non-consolidated or consolidated capital adequacy ratio under the domestic standards becomes less than 4 percent, and a swift recovery from such condition cannot be expected; and
- (6) In the case of an insurance company, when its non-consolidated or consolidated solvency margin ratio becomes less than 400 percent and a swift recovery from such condition cannot be expected.

5 In the event that a Clearing Participant has notified JSCC of the matters set forth in Item (1) of Paragraph 1 of Article 19 or has made a public announcement of any of the matters set forth in Item (2) through Item (5) of Paragraph 1 of the said Article<sup>\*1</sup>, but does not apply for the renunciation of its Clearing Qualification, JSCC may conduct a hearing for the relevant Clearing Participant and take the measures to suspend the assumption of all or a part of the obligations under the Contracts Subject to Clearing to which such Clearing Participant is a party.

(<sup>\*1</sup> in the case of Item (4) of Paragraph 1 of the said Article, limited to the succession of the entire Business, and in the case of Item (5), limited to the transfer of the entire Business)

6 In the event that an Agency Clearing Participant has submitted the notification set forth in Paragraph 2 of Article 19 but does not apply for the renunciation of its Agency Clearing Qualification, JSCC may conduct a hearing for the relevant Clearing Participant and take the measure to suspend the assumption of all or a part of the obligations under the Contracts Subject to Clearing<sup>\*1</sup> to which such Clearing Participant is a party.

(<sup>\*1</sup> limited to the obligations relating to the Brokerage for Clearing of Securities, etc.)

(Article 29-2 Measures to be Taken with respect to Clearing Participants with Excessive Positions)

1 In the event that a Clearing Participant is deemed to hold excessive positions<sup>\*1</sup> or there is deemed to be a real possibility of such event, JSCC may take any of the measures set forth in the following Items and/or any other measures deemed necessary by JSCC:

(<sup>\*1</sup> referring to the event where the Amount Corresponding to Risk<sup>\*1-1</sup> assumed to be owed under the relevant Clearing Participant's Unsettled Contracts is deemed excessive, compared to the relevant Clearing Participant's net worth<sup>\*1-2</sup> or its financial condition such as cash, etc., and such Amount Corresponding to Risk arises from the contracts on the account of such Clearing Participant or the contracts pursuant to the commissions from a small number of customers<sup>\*1-3</sup>; the same applies in the following Article)

(<sup>\*1-1</sup> referring to the amount corresponding to the risk of loss which can result from

fluctuations of prices of each issue relating to the contracts involving the relevant Clearing Participant's Unsettled Contracts; the same applies in the following Article)

(\*<sup>1-2</sup> in the case of a Registered Financial Institution or a Securities Finance Company, the amount of its net assets)

(\*<sup>1-3</sup> including contracts pursuant to the commissions of the Brokerage for Clearing of Securities, etc. from Non-Clearing Participants)

(1) Increase in the required amount of the Margin and the Like\*<sup>1</sup>;

(\*<sup>1</sup> referring to the initial margin, clearing fund or Margin\*<sup>1-1</sup>; the same applies hereinafter in this Paragraph)

(\*<sup>1-1</sup> referring to the Margin relating to the Future and Option Contracts\*<sup>1-1-1</sup> on the Clearing Participant's own account, or the Futures and Option Contracts pursuant to the commissions from a customer or commissions of the Brokerage for Clearing of Securities, etc. from a Non-Clearing Participant, or the Margin relating to the Exchange FX Contracts on the Clearing Participant's own account, or the Exchange FX Contracts pursuant to the commissions from a customer or commissions of the Brokerage for Clearing of Securities, etc. from a Non-Clearing Participant)

(\*<sup>1-1-1</sup> referring to the Security Option Contracts, JGB Futures Contracts, Option Contracts on JGB Futures, Index Futures Contracts and Index Option Contracts; the same applies hereinafter)

(2) In the case where securities are deposited in lieu of cash as the Margin and the Like, limitations on the securities designated by JSCC; and

(3) In the case where securities are deposited in lieu of cash as the Margin and the Like, reduction in the rate by which the securities' market value shall be multiplied when calculating the substituting price.

2 In the event that any of the measures set forth in the preceding Paragraph is taken with respect to the Margin relating to the Futures and Option Contracts or the Margin relating to the Exchange FX Contracts pursuant to the commissions from a customer or commissions of the Brokerage for Clearing of Securities, etc. from a Non-Clearing Participant, the Clearing Participant which is subject to such measure shall take the measure, which is the same as the above-referenced measure, with respect to the relevant customer or the relevant Non-Clearing Participant.

(Article 29-3 Instructions for Improvement on Position Holding)

1 In the event that, even after the measures set forth in the preceding Article are taken, the relevant Clearing Participant is still deemed to hold excessive positions on the date designated by JSCC or that it is deemed necessary to immediately eliminate the risk relating to the likelihood of the relevant Clearing Participant's performance of its obligations owed to JSCC due to an increase in the Amount Corresponding to Risk of the relevant

Clearing Participant, etc., JSCC may conduct a hearing for the relevant Clearing Participant and, to the extent necessary, issue the instructions for improvement on position holding\*<sup>1</sup> pursuant to resolutions adopted at the meeting of the board of directors.

(\*<sup>1</sup> limited to those relating to Futures and Option Contracts or Exchange FX Contracts)

- 2 The Clearing Participant to which the instructions for improvement on position holding set forth in the preceding Paragraph is issued shall take concrete measures such as enhancing its capital, settling its unsettled Contracts for Clearing or transferring them to other Clearing Participants, etc., in order to resolve the matters for which such Instructions were issued, on or before the date designated by JSCC in each case.
- 3 In the event that the relevant Clearing Participant intends to transfer its Unsettled Contracts to such other Clearing Participants in accordance with the provisions of the preceding Paragraph, such Clearing Participant shall obtain in advance the approval of JSCC and such other Clearing Participants.
- 4 When the preceding Paragraph applies, if the Unsettled Contracts to be transferred are commissioned by a customer, the relevant Clearing Participant shall obtain such customer's approval of the transfer of such Unsettled Contracts.
- 5 When Paragraph 3 applies, if the Unsettled Contracts to be transferred are pursuant to the commissions of the Brokerage for Clearing of Securities, etc. from a Non-Clearing Participant, the relevant Clearing Participant shall obtain such Non-Clearing Participant's approval of the transfer of the Unsettled Contracts.
- 6 In addition to the matters prescribed in these Business Rules, any matters necessary for the instructions for improvement on position holding shall be prescribed by JSCC on each applicable occasion.

(Article 29-4 Measures to be Taken with respect to Clearing Participants When their Collateral Deposit Status is Deemed Inappropriate, etc.)

- 1 In the event that any Clearing Participant deposits with JSCC Stocks And The Like\*<sup>1</sup> in lieu of cash as the Clearing Deposit and the Like\*<sup>2</sup>, if the deposited amount of any issue exceeds the amount equal to 5% of the number of listed shares\*<sup>3</sup> of such issue, JSCC may take the measures set forth in any of the following Items with respect to the relevant Clearing Participant:

(\*<sup>1</sup> referring to stocks, preferred equity capital contribution securities, investment trust beneficiary securities and investment securities)

(\*<sup>2</sup> referring to the Clearing Deposit\*<sup>2-1</sup> and the Margin\*<sup>2-2</sup>; the same applies hereinafter in this Article)

(\*<sup>2-1</sup> referring to the Clearing Deposit prescribed in Article 74)

(\*<sup>2-2</sup> limited to the Margin relating to the Futures and Option Contracts on the Clearing Participant's own account, the Margin relating to the Exchange FX Contracts on the Clearing Participant's own account and other Margin prescribed by JSCC)

(\*<sup>3</sup> in the case of preferred equity capital contribution securities, the number of listed units of the preferred equity capital contribution securities; in the case of investment trust beneficiary securities, the number of listed units of the beneficiary securities; and in the case of investment securities, the number of listed units of the investment securities; the same applies hereinafter)

- (1) In the case where securities are deposited in lieu of cash as the Clearing Deposit and the Like, limitations on securities designated by JSCC; and
- (2) In the case where securities are deposited in lieu of cash as the Clearing Deposit and the Like, reduction in the rate by which the securities' market value shall be multiplied when calculating the substituting price.

2 In the event that the securities issued by a Clearing Participant\*<sup>1</sup> are deposited with JSCC in lieu of cash as the Clearing Deposit and the Like, JSCC may take the measures set forth in any of the Items of the preceding Paragraph with respect to such Clearing Participant in connection with the securities issued by such Clearing Participant.

(\*<sup>1</sup> including securities issued by the parent company\*<sup>1-1</sup> or subsidiary\*<sup>1-2</sup> of the relevant Clearing Participant, or any subsidiary of such parent company)

(\*<sup>1-1</sup> referring to an entity who is deemed to be the parent company of the relevant Clearing Participant under the provisions of Paragraph 3 of Article 8 of the Regulations Concerning the Terms, Forms and Preparation Methods of Financial Statements, etc.\*<sup>1-1-1</sup>; the same applies hereinafter in this Paragraph)

(\*<sup>1-1-1</sup> Ministry of Finance Ordinance No. 59 of 1963; hereinafter referred to as the "Financial Statements, etc. Regulations")

(\*<sup>1-2</sup> referring to an entity who is deemed to be a subsidiary of the relevant Clearing Participant under the provisions of Paragraph 3 of Article 8 of the Financial Statements, etc. Regulations; the same applies hereinafter in this Paragraph)

3 In addition to the provisions of the preceding two Paragraphs, if deemed necessary by JSCC in order to ensure the performance by a Clearing Participant of its obligations owed to JSCC, JSCC may take measures set forth in any of the Items under Paragraph 1 with respect to the relevant Clearing Participant.

(Article 30 Measures against Clearing Participant, the Obligations of which JSCC has Ceased to Assume Due to Failure to Apply for Renouncing Clearing Qualification upon Discontinuation of Business, etc.)

1 In the event that JSCC has suspended, pursuant to Paragraph 5 or Paragraph 6 of Article 29, assumption of the obligations under the Contracts Subject to Clearing to which the relevant Clearing Participant is a party, JSCC may cause such Clearing Participant to transfer its unsettled Contracts for Clearing to other Clearing Participants or to make other arrangements that JSCC deems necessary.

2 JSCC may assume the obligations under the Contracts Subject to Clearing to which the

relevant Clearing Participant is a party in order to make the arrangements set forth in the preceding Paragraph or otherwise to the extent that JSCC deems necessary.

- 3 When JSCC deems it necessary, it may cause other Clearing Participants to make the arrangements set forth in Paragraph 1. In such case, an entrustment agreement shall be deemed to have been formed between such other Clearing Participant and the Clearing Participant whose obligations ceased to be assumed by JSCC pursuant to said Paragraph.

(Article 31 Lifting of the Measures of Suspension of Assumption of Obligation, etc.)

- 1 In the event that JSCC has suspended assumption of obligations\*<sup>1</sup> pursuant to Article 29 without specifying its duration, the Clearing Participant subject to such suspension, when it has eliminated the reason for such suspension, may file a petition with explanatory documents for the lifting of such suspension.

(\*<sup>1</sup> excluding the suspension of assumption made only in respect of the obligations pertaining to the Brokerage for Clearing of Securities, etc.)

- 2 When JSCC deems it appropriate to lift the suspension based on the petition set forth in the preceding Paragraph, JSCC shall approve such petition.

- 3 In the event that the Clearing Participant subject to the suspension set forth in Paragraph 1 fails to obtain the approval set forth in the preceding Paragraph within one year from the day on which it was subjected to such suspension, JSCC may revoke the Clearing Qualification of the relevant Clearing Participant by a resolution adopted at the meeting of the board of directors.

- 4 The provisions of the preceding three Paragraphs shall apply *mutatis mutandis* to the case where JSCC suspended assumption of obligations\*<sup>1</sup> pursuant to Article 29 without specifying its duration. In such case, the phrase “may revoke the Clearing Qualification of” in Paragraph 3 shall be deemed to be “may revoke the Agency Clearing Qualification of and grant the Principal Clearing Qualification to”.

(\*<sup>1</sup> limited to the suspension of assumption made only in respect of the obligations pertaining to the Brokerage for Clearing of Securities, etc.)

- 5 The provisions of Paragraph 1 and Paragraph 2 shall apply *mutatis mutandis* to the case where any measure set forth in Article 29-2 through Article 29-4 is taken.

(Article 32 Making Objection, etc.)

The proviso of Paragraph 1 of Article 14, and the provisions of Paragraph 2 and Paragraph 3 of said Article shall apply *mutatis mutandis* to the hearing set forth in Article 29 and Article 29-3, and the provisions of Paragraph 4 through Paragraph 6 of Article 14 shall apply *mutatis mutandis* to the measures set forth in Article 29 through Article 29-4.

(Article 33 Measures against Clearing Participant Having Ceased to be a Financial Instruments Business Operator)

A Clearing Participant shall forfeit its Clearing Qualification when any of the following events occurs to it:

- (1) Where such Clearing Participant is a Securities Clearing Participant, JGB Futures Clearing Participant or Index Futures Clearing Participant, when it ceases to be a Financial Instruments Business Operator or Registered Financial Institution which has obtained registration of the operation with respect to the acts prescribed in Item 1 of Paragraph 1 of Article 28 of the Act<sup>\*1</sup>; or  
(\*<sup>1</sup> in the case of a Securities Finance Company which has obtained Clearing Qualification pursuant to the application made under Paragraph 3 of Article 6, when it ceases to be a Securities Finance Company)
- (2) Where such Clearing Participant is an FX Clearing Participant, when it ceases to be a Financial Instruments Business Operator or Registered Financial Institution which has obtained registration of the operation with respect to the acts prescribed in Item 3 of Paragraph 2 of Article 28 of the Act<sup>\*1</sup>; or  
(\*<sup>1</sup> or, in the case where such FX Clearing Participant is an entity accepting commission of an Exchange FX Contract, registration of such business as well as the business relating to the act set forth in Paragraph 5 of the said Article)
- (3) It has been dissolved.

(Article 33-2 The Disciplinary Measures Assessment Committee)

- 1 When JSCC intends to take any of the measures set forth in Article 29, Article 29-2 or Article 29-3 with respect to a Clearing Participant, JSCC shall consult with the Disciplinary Measures Assessment Committee in advance about the appropriateness of taking the relevant measure and respect the opinion of the Committee.
- 2 Notwithstanding the provisions of the preceding Paragraph, when JSCC intends to take the measure set forth in Article 29-2<sup>\*1</sup> or when there otherwise is an urgent need therefor, JSCC shall be permitted to take such measure without consulting with the Disciplinary Measures Assessment Committee.  
(\*<sup>1</sup> limited to those relating to contracts on the Clearing Participant's own account)
- 3 In addition to the provisions prescribed in the preceding two Paragraphs, matters concerning the Disciplinary Measures Assessment Committee shall be prescribed in other rules.

(Article 34 Notice of Measures, etc.)

- 1 When JSCC is to suspend assumption of all or a part of obligations, or to revoke Clearing Qualification pursuant to these Business Rules, JSCC shall notify to that effect in advance to the Designated Market Operator, in respect of which either the relevant Clearing Participant or a Non-Clearing Participant which has entered into the Contract for Commissioning Clearance with such Clearing Participant has a trading qualification or a

membership, and also to its Designated Securities Finance Company<sup>\*1</sup>.

(\*1 in the case where the relevant Clearing Participant is a Securities Finance Company<sup>\*1-1</sup>, to the Designated Market Operator which designated such Securities Finance Company as the Designated Securities Finance Company)

(\*1-1 limited to the one which has obtained the Clearing Qualification pursuant to the application made under Paragraph 3 of Article 6)

2 The provisions of the preceding Paragraph shall apply *mutatis mutandis* to the case where a Clearing Participant has forfeited Clearing Qualification pursuant to Article 33. In such case, the word “in advance” in said Paragraph shall be deemed to be “immediately”.

3 When JSCC has, pursuant to these Business Rules, suspended assumption of all or a part of the obligations in respect of the Brokerage for Clearing of Securities, etc., or revoked Clearing Qualification of an Agency Clearing Participant; or when an Agency Clearing Participant has forfeited Clearing Qualification pursuant to the provisions of Article 33, the relevant Agency Clearing Participant shall immediately notify to that effect to the Non-Clearing Participants which have entered into the Contract for Commissioning Clearance with it.

4 When JSCC prohibits the Cross Margining Request pursuant to the provisions of Paragraph 1 of Article 29, the Clearing Participant subject to such measures must immediately notify the Cross Margining User<sup>\*1</sup> and the Cross Margining Accepting Party<sup>\*2</sup> under its Cross Margining Request of such effect.

(\*1 as such term defined in Article 2.1.(13)-8 of the Interest Rate Swap Clearing Business Rules (hereinafter referred to as “IRS Business Rules”); the same applies hereinafter)

(\*2 referring to an entity which gives notice of acceptance of a Cross Margining Request pursuant to the provisions of IRS Business Rules; the same applies hereinafter)

5 When JSCC has taken the measure set forth in Article 29-2<sup>\*1</sup> or the measure set forth in Article 29-3 with respect to a Clearing Participant, JSCC shall immediately notify to that effect to the Designated Market Operator relating to the contracts which have cross relation to the reason of the relevant measure.

(\*1 limited to the measure with respect to the Margin)

6 When JSCC has prohibited Cross Margining Request, given a Clearing Participant Instructions for Improvement, suspended assumption of all or a part of obligations, revoked Clearing Qualification, or given instructions for improvement on position holding pursuant to these Business Rules, JSCC shall notify to that effect to every Clearing Participant or publish to that effect not later than 6 months after the day on which such measure was taken; provided, however, that if JSCC deems necessary and appropriate taking into account the possible market impact should it make such notification or publication, JSCC may make such notification or publication not earlier than 6 months after the day on which such measure was taken.

6 In the event that JSCC makes notification or publication prescribed in the preceding

Paragraph, JSCC shall set the extent to be notified or published on each applicable occasion taking into account the importance of the measures subject to such notification or publication, or the possible market impact should it make such notification or publication.

- 7 When a Clearing Participant has forfeited its Clearing Qualification pursuant to the provisions of Article 33, JSCC shall notify to that effect to each Clearing Participant having the Clearing Qualification of the same category.

(Article 35 Treatment of Clearing Participant whose Obligations have Ceased to be Assumed)

- 1 In the event that JSCC has suspended assumption of all or a part of the obligations pursuant to the provisions of this Chapter, the relevant Clearing Participant may, obtaining JSCC's approval, transfer its unsettled Contracts for Clearing to other Clearing Participants during the period of suspension.
- 2 In addition to the provisions of the preceding Paragraph, in the event that JSCC has suspended assumption of the obligations pursuant to Paragraph 1 Article 29 with respect to a Clearing Participant due to the disobedience of the instructions for improvement on position holding set forth in Article 29-3, JSCC may cause such Clearing Participant to transfer its unsettled Contracts for Clearing to other Clearing Participants or to make other arrangements that JSCC deems necessary.
- 3 When JSCC deems it necessary, it may cause other Clearing Participants to make the arrangements set forth in the preceding Paragraph. In such case, an entrustment agreement shall be deemed to have been formed between such other Clearing Participant and the Clearing Participant whose obligations ceased to be assumed by JSCC pursuant to said Paragraph.

(Article 36 Handling of Unsettled Contracts for Clearing belonging to such Entities as Those whose Clearing Qualification have been Revoked)

- 1 When JSCC has, pursuant to these Business Rules, revoked Clearing Qualification, or a Clearing Participant has forfeited its Clearing Qualification pursuant to Article 33, JSCC may cause the relevant Clearing Participant to transfer its unsettled Contracts for Clearing to other Clearing Participants or to make other arrangements that JSCC deems necessary.
- 2 When JSCC deems it necessary, it may cause other Clearing Participants to make the arrangements set forth in the preceding Paragraph. In such event, an entrustment agreement shall be deemed to have been formed between such other Clearing Participant and the relevant former Clearing Participant.
- 3 The relevant former Clearing Participant set forth in Paragraph 1 shall continue to be regarded as Clearing Participant for the purpose of settling the unsettled Contracts for Clearing belonging to such former Clearing Participant or of making arrangements, or otherwise to the extent JSCC deems necessary.

(Article 37 Recommendation to Clearing Participant)

- 1 When JSCC determines that the operational or financial condition of a Clearing Participant is not appropriate taking JSCC's operations of the Securities and Similar Contract Clearing Business into account, JSCC may recommend the relevant Clearing Participant to take appropriate measures.
- 2 In the event JSCC has made the recommendations set forth in the preceding Paragraph and determines that it is necessary to do so, JSCC may request the relevant Clearing Participant to submit a report with respect to its handling of the recommendations.

Chapter 3 Brokerage for Clearing of Securities, etc.

(Article 38 Contracts Eligible for Brokerage for Clearing of Securities, etc.)

1 The contracts which can be subject of the Brokering for Clearing of Securities, etc. to be executed by an Agency Clearing Participant are the Contracts Subject to Clearing set forth in Paragraph 2 of Article 3\*1.

(\*1 limited to those in respect of Item (1) through Item (9) and Item (11) of said Paragraph)

2 Each of the following contracts shall be regarded as being resulted from the Brokerage for Clearing of Securities, etc., and these Business Rules shall apply to these contracts accordingly: of the buying/selling of the underlying stocks resulting from the exercise of the option under Security Option Contract, those resulting from the exercise of the option under Security Option Contract by the entity which does not hold the Securities Clearing Qualification and from the exercise of the option under Security Option Contract through the Brokerage for Clearing of Securities, etc.; of JGB Futures Contracts resulting from the exercise of the option under Option Contract on JGB Futures set forth in Item (4) of said Paragraph, those resulting from the exercise of the option under Option Contract on JGB Futures through the Brokerage for Clearing of Securities, etc.; and, of the transactions resulting from the exercise of the option under Index Option Contract set forth in Item (6) of said Paragraph, those resulting from the exercise of the option under Index Option Contract through the Brokerage for Clearing of Securities, etc. Provided, however, that the foregoing does not apply to the buying/selling of the underlying stocks resulting from the exercise of the option under Security Option Contract pursuant to the commission of the Brokerage for Clearing of Securities, etc. from a Securities Clearing Participant.

3 Of the contracts prescribed in Item (2) through Item (6) of Paragraph 2 of Article 3, the contracts between JSCC and the Designated Clearing Participant of a Non-Clearing Participant resulting from the completion of the Give-up\*1 under which the relevant Non-Clearing Participant is also a Trading Participant Executing Clearance\*2 shall be regarded as resulting from the Brokerage for Clearing of Securities, etc., and these Business Rules shall apply to such contracts accordingly.

(\*1 referring to the Give-up prescribed by the Designated Market Operator\*1-1; the same applies hereinafter)

(\*1-1 limited to the Designated Market Operator which operates the Designated Financial Instruments Market prescribed in Item (2) through Item (6) of Paragraph 2 of Article 3)

(\*2 referring to the Trading Participant Executing Clearance prescribed in item (1) of Paragraph 1 of Article 46-2)

(Article 39 Conclusion of Contract for Commissioning Clearance with Non-Clearing Participant)

An Agency Clearing Participant to operate the Brokerage for Clearing of Securities, etc. is required to enter into the Contract for Commissioning Clearance— containing the provisions to the effect that when an Non-Clearing Participant is to form a Contract Subject to Clearing on behalf of a Clearing Participant, such Non-Clearing Participant shall be regarded as applying for the Brokerage for Clearing of Securities, etc., and such Clearing Participant shall be regarded as accepting the application, and other provisions prescribed by JSCC —with the Non-Clearing Participant which commissions the Brokerage for Clearing of Securities, etc.

(Article 40 Notification of Conclusion of Contract for Commissioning Clearance)

When an Agency Clearing Participant intends to enter into the Contract for Commissioning Clearance, such Agency Clearing Participant shall notify JSCC of its details in advance in accordance with the rules of JSCC.

(Article 41 Notification of Termination of Contract for Commissioning Clearance)

1 In terminating the Contract for Commissioning Clearance, the Agency Clearing Participant shall notify JSCC of its details as prescribed in the following Items, based on the classification of termination referenced in each Item:

(1) Termination by agreement

The Agency Clearing Participant shall submit a notice by three days before the day\*<sup>1</sup> on which it intends to terminate the Contract.

(\*<sup>1</sup> excluding Non-business Days; the same applies hereinafter when counting the number of days)

(2) Termination resulting from a prior written notice of intention to terminate the Contract given by the Agency Clearing Participant to the Non-Clearing Participant\*<sup>1</sup>

(\*<sup>1</sup> excluding the termination set forth in Item (5))

The Agency Clearing Participant shall submit a notice without delay after it has given the notice of intention to terminate.

(3) Termination resulting from a prior written notice of intention to terminate the Contract received by the Agency Clearing Participant from the Non-Clearing Participant.

The Agency Clearing Participant shall submit a notice without delay after it received the notice of intention to terminate.

(4) Termination resulting from the fact that the Non-Clearing Participant has fallen under an acceleration event with regard to the obligations under the contract pursuant to the commissions of the Brokerage for Clearing of Securities, etc.

The Agency Clearing Participant shall submit a notice by the day immediately preceding the day on which it intends to terminate the Contract.

(5) If the Agency Clearing Participant agreed with the Non-Clearing Participant on the condition that the Agency Clearing Participant may terminate the Contract for

Commissioning Clearance taking into account securing the performance of the obligations under the contract pursuant to the commissions of the Brokerage for Clearing of Securities, etc., termination resulting from a prior written notice of intention to cancel the Contract given by the Agency Clearing Participant to the Non-Clearing Participant due to the fact that such condition has been fulfilled.

The Agency Clearing Participant shall submit a notice immediately and by the day immediately preceding the day on which it intends to terminate the Contract.

- 2 In the event that JSCC has received the notice set forth in the preceding Paragraph, JSCC shall notify to that effect to the Designated Market Operators with respect to which the Non-Clearing Participant, which is the counterparty to the Contract to be terminated, has the trading qualification in respect of the transactions covered by the relevant Contract or a membership.

(Article 42 Segregation of Contracts Subject to Clearing)

Agency Clearing Participant shall manage the Contracts Subject to Clearing, segregating those pursuant to the Brokerage for Clearing of Securities, etc. from those that are not.

(Article 43 Transfer of Unsettled Contracts for Clearing in the case of Change of Designated Clearing Participant)

- 1 In the event that a Non-Clearing Participant has changed its Designated Clearing Participant in accordance with the rules of the Designated Market Operator, the unsettled Contracts for Clearing which are pursuant to the commissions of the Brokerage for Clearing of Securities, etc., from the relevant Non-Clearing Participant at the time of such change shall be transferred from the former Designated Clearing Participant to the new Designated Clearing Participant.
- 2 In the event that a Clearing Participant, which is a trading participant or a member of a Designated Market Operator, has forfeited its Clearing Qualification, and other Clearing Participant is to be designated as the Designated Clearing Participant pursuant to the rules of the Designated Market Operator, the Contracts for Clearing, belonging to the Clearing Participant forfeiting its Clearing Qualification which remain unsettled at the time of such designation, shall be transferred from the Clearing Participant forfeiting its Clearing Qualification to the Clearing Participant which is newly designated as the Designated Clearing Participant.

(Article 44 Transfer of Unsettled Contracts for Clearing, etc., When Non-Clearing Participant is Suspended from Commissioning the Brokerage for Clearing of Securities, etc.,)

- 1 In the event that a Designated Market Operator, with respect to which a Non-Clearing Participant has its trading qualification or membership, suspended or partly restricted the Non-Clearing Participant from commissioning the Brokerage for Clearing of Securities, etc.,

suspended or restricted the Non-Clearing Participant's membership, revoked the Non-Clearing Participant's trading qualification, or expelled the Non-Clearing Participant, JSCC shall, according to the details of the measures to be taken by the Designated Market Operator, cause the unsettled Contracts for Clearing which are pursuant to the commissions of the Brokerage for Clearing of Securities, etc., from the relevant Non-Clearing Participant to be transferred to other Clearing Participants or cause other necessary arrangements to be made.

- 2 The provisions of the preceding Paragraph shall not apply to the case where JSCC has suspended assumption of all or a part of the obligations or revoked the Clearing Qualification of the Designated Clearing Participant of the relevant Non-Clearing Participant.

(Article 45 Transfer of Unsettled Contracts for Clearing, etc., When Clearing Participant is Suspended from Trading in Securities, etc.,)

- 1 In the event that a Designated Market Operator, with respect to which a Clearing Participant has its trading qualification or membership, suspended or partly restricted the Clearing Participant from buying/selling securities, etc.\*1, suspended or restricted the Clearing Participant's membership, revoked the Clearing Participant's trading qualification, or expelled the Clearing Participant, JSCC shall, according to the details of the measures to be taken by the Designated Market Operator, cause the unsettled Contracts for Clearing belonging to such Clearing Participant to be transferred to other Clearing Participants or cause other necessary arrangements to be made.

(\*1 referring to buying/selling of securities and Market Transactions of Derivatives)

- 2 The provisions of the preceding Paragraph shall not apply to the case where JSCC has suspended assumption of all or a part of the obligations or revoked the Clearing Qualification of the relevant Clearing Participant.

(Article 45-2 Transfer of Unsettled Contracts, etc., When Clearing Participants Receive Instructions for Improvement)

- 1 In the event that a Clearing Participant which is a Non-Clearing Participant's Designated Clearing Participant receives the instructions for improvement on position holding pursuant to the provisions of Article 29-3 due to the relevant Non-Clearing Participant's failure to comply with the measure set forth in Paragraph 2 of Article 29-2 without a justifiable reason, such Clearing Participant shall have the right to request the relevant Non-Clearing Participant to settle its Unsettled Contracts pursuant to the commissions of the Brokerage for Clearing of Securities, etc. from the Non-Clearing Participant or to transfer them to other Clearing Participants.
- 2 In the event that a Clearing Participant receives the instructions for improvement on position holding set forth in the preceding Paragraph, if such Instructions cannot be complied with in

spite of reasonable efforts to comply with such Instructions and if the relevant Non-Clearing Participant fails to comply with the request set forth in the preceding Paragraph without a justifiable reason in spite of the Clearing Participant's submission of such request to the relevant Non-Clearing Participant in advance to provide a reasonable grace period, the Clearing Participant may, to the extent deemed reasonably necessary, execute the Offsetting-Sale<sup>\*1</sup> or Offsetting-Purchase<sup>\*2</sup>, or exercise the option<sup>\*3</sup> on the account of such Non-Clearing Participant, in order to settle such the Unsettled Contracts pursuant to the commissions of the Brokerage for Clearing of Securities, etc. from such Non-Clearing Participant.

(\*1 referring to the contract which is the opposite of the Long Position<sup>\*1-1</sup>; the same applies hereinafter)

(\*1-1 referring to the amount pertaining to the buying contract, out of the amount<sup>\*1-1-1</sup> under an Unsettled Contract relating to Futures and Option Contracts or Exchange FX Contracts; the same applies hereinafter)

(\*1-1-1 hereinafter referred to as the "Position")

(\*2 referring to the contract which is the opposite of the Short Position<sup>\*2-1</sup>; the same applies hereinafter)

(\*2-1 referring to the amount pertaining to the selling contracts out of the Position; the same applies hereinafter)

(\*3 including the commission thereof)

Chapter 4 Assumption of Obligations

(Article 46 Assumption of Obligations)

1 The assumption of obligations by JSCC as the Securities and Similar Contract Clearing Business shall be done as prescribed in the following Items, based on the classification referenced in each Item:

(1) Contract Subject to Clearing listed in Item (1), Item (3), Item (5), Item (10) or Item (11) of Paragraph 2 of Article 3;

When a Contract Subject to Clearing is formed pursuant to the rules of the Designated Market Operator<sup>\*1</sup>, JSCC shall, in respect of the relevant Contract Subject to Clearing, assume the selling Clearing Participant's obligations owed to the buying Clearing Participant which is the selling Clearing Participant's counterparty in such a manner to discharge the relevant selling Clearing Participant from the relevant obligation, and simultaneously such selling Clearing Participant shall newly incur the obligations owed to JSCC which are equivalent to those assumed by JSCC; at the same time, JSCC shall assume the buying Clearing Participant's obligations owed to the selling Clearing Participant which is the buying Clearing Participant's counterparty in such a manner to discharge the relevant buying Clearing Participant from the relevant obligations, and simultaneously such buying Clearing Participant shall newly incur the obligations owed to JSCC which are equivalent to those assumed by JSCC.

(\*1 in the case of the Contract Subject to Clearing prescribed in Item (10) of Paragraph 2 of Article 3, pursuant to the rules of JSCC)

(2) Contract Subject to Clearing listed in Item (2), Item (4) or Item (6) of Paragraph 2 of Article 3;

When a Contract Subject to Clearing is formed pursuant to the rules of the Designated Market Operator, JSCC shall, in respect of the relevant Contract Subject to Clearing, succeed to the position<sup>\*1</sup> of the option seller in respect of the option held by the buying Clearing Participant which is the selling Clearing Participant's counterparty, and simultaneously such selling Clearing Participant shall hold the position of the seller of a new option opposite to JSCC which is equivalent to the one which was succeeded to by JSCC. In such case, JSCC shall assume the relevant buying Clearing Participant's obligations to pay the contract price owed to the relevant selling Clearing Participant in such a manner to discharge such buying Clearing Participant from the relevant obligations, and simultaneously such buying Clearing Participant shall newly incur the obligations owed to JSCC which are equivalent to those assumed by JSCC.

(\*1 excluding the right to claim for the contract price)

(3) Contract Subject to Clearing listed in Item (7) through Item (9) of Paragraph 2 of Article 3.

When JSCC has received the notification made in accordance with the rules of JSCC

from a Designated Securities Finance Company regarding the details of the obligations which should be assumed by JSCC, JSCC shall, after affirming the contents of the notification and pursuant to the contents, assume the Designated Securities Finance Company's obligations\*<sup>1</sup> owed to the Clearing Participant which is the Designated Securities Finance Company's counterparty in such a manner to discharge the Designated Securities Finance Company from the relevant obligations, and such Designated Securities Finance Company shall newly incur the obligations owed to JSCC which are equivalent to those assumed by JSCC; at the same time, JSCC shall assume the Clearing Participant's obligations\*<sup>2</sup> owed to the Designated Securities Finance Company which is the Clearing Participant's counterparty in such a manner to discharge the Clearing Participant from the relevant obligations, and such Clearing Participant shall newly incur the obligations owed to JSCC which are equivalent to those assumed by JSCC.

(\*<sup>1</sup> referring to the monetary obligations or the obligations to deliver Stocks And The Like in respect of: a lending under the Money/Securities Loan Transaction; a return of the Collateral, etc. resulting from a return of the lent object under the Money/Securities Loan Transaction\*<sup>1-1</sup>; a delivering of the Collateral, etc. resulting from the borrowing under the Securities Lending Transaction; and a return of the borrowed object under the Securities Lending Transaction)

(\*<sup>1-1</sup> in the case of returning the Collateral, etc. in respect of a lending/borrowing of Stocks And The Like\*<sup>1-1-1</sup>, referring to the return of the Cash Collateralizing a Loan (lending) of Stock and the Like\*<sup>1-1-2</sup> in the amount which should be returned on the date of the return of the lent object as prescribed by the Rules for Money/Securities Loan Transaction)

(\*<sup>1-1-1</sup> referring to the Stocks And The Like prescribed in Item (7) of Paragraph 2 of Article 3; the same applies in this Article)

(\*<sup>1-1-2</sup> referring to the cash collateralizing a lending of stocks and the like made by the Designated Securities Finance Company as stipulated in the Rules for Money/Securities Loan Transaction)

(\*<sup>2</sup> referring to the monetary obligations or the obligations to deliver Stocks And The Like in respect of: a lending under the Securities Lending Transaction; a return of the Collateral, etc. resulting from a return of the lent object under the Securities Lending Transaction\*<sup>2-1</sup>; a delivering of the Collateral, etc. resulting from a borrowing under the Money/Securities Loan Transaction, and a return of the borrowed object under the Money/Securities Loan Transaction\*<sup>2-2</sup>)

(\*<sup>2-1</sup> referring to the return of the Cash Collateralizing a Loan (borrowing) of Stock and the Like\*<sup>2-1-1</sup> in the amount which should be returned on the date of the return of the lent object as prescribed by the Rules for Money/Securities Loan Transaction)

(\*<sup>2-1-1</sup> referring to the cash collateralizing a borrowing of stocks and the like made

by the Designated Securities Finance Company as stipulated in the Rules for Money/Securities Loan Transaction)

(\*2-2 in the case of returning the money borrowed under a cash loan, referring to the repayment of money in the amount which should be repaid on the repayment date pursuant to the Rules for Money/Securities Loan Transaction)

2 JSCC shall notify the relevant Clearing Participant of the details of the obligations JSCC assumed pursuant to the provisions of the preceding Paragraph and the matters which are necessary for settling those obligations.

3 When the Clearing Participant has received the notification set forth in the preceding Paragraph, it shall immediately affirm its contents.

(Article 46-2 Extinguishment and New Incurrence of Obligations Resulting from Completion of the Give-up)

1 In the event where the Give-up is completed in accordance with the rules prescribed by the Designated Market Operator<sup>\*1</sup>, the provisions of the following Items shall apply to the obligations set forth in Paragraph 1 of the preceding Article, depending upon the classifications set forth in such Items:

(\*1 limited to a Designated Market Operator which establishes the Designated Financial Instruments Market set forth in Item (2) through Item (6) of Paragraph 2 of Article 3; the same applies hereinafter in this Article)

(1) Contracts Subject to Clearing listed in Item (3) or Item (5) of Paragraph 2 of Article 3  
When the Give-up is completed in accordance with the rules prescribed by the Designated Market Operator, with respect to the Contract Subject to Clearing which is extinguished as a result of the completion of the Give-up, JSCC's obligations owed to the Clearing Participant<sup>\*1</sup> which is also the Trading Participant Executing Trade<sup>\*2</sup> pursuant to the provisions of Item (1) of Paragraph 1 of the preceding Article and the obligations of such Clearing Participant which is also the Trading Participant Executing Trade owed to JSCC shall become extinguished prospectively; at the same time, with respect to the Contract Subject to Clearing which is extinguished as a result of the completion of the Give-up, JSCC shall newly incur obligations owed to the Clearing Participant<sup>\*3</sup> which is also the Trading Participant Executing Clearance<sup>\*4</sup>, which are equivalent to those which JSCC owed to the relevant Clearing Participant which is also the Trading Participant Executing Trade, and the relevant Clearing Participant which is also the Trading Participant Executing Clearance shall newly incur obligations owed to JSCC which are equivalent to those which the relevant Clearing Participant which is also the Trading Participant Executing Trade owed to JSCC.

(\*1 in the case where the relevant Trading Participant Executing Trade is a Non-Clearing Participant, referring to its Designated Clearing Participant; the same applies hereinafter in this Article)

(\*<sup>2</sup> referring to the Trading Participant Executing Trade prescribed by the Designated Market Operator; the same applies hereinafter)

(\*<sup>3</sup> in the case where the relevant Trading Participant Executing Clearance is a Non-Clearing Participant, referring to its Designated Clearing Participant; the same applies hereinafter in this Article)

(\*<sup>4</sup> referring to the Trading Participant Executing Clearance prescribed by the Designated Market Operator; the same applies hereinafter)

(2) Contracts Subject to Clearing listed in Item (2), Item (4) or Item (6) of Paragraph 2 of Article 3

A) In the case where the Trading Participant Executing Trade is a selling Clearing Participant

When the Give-up is completed in accordance with the rules prescribed by the Designated Market Operator, with respect to the Contract Subject to Clearing which is extinguished as a result of the completion of the Give-up, the position of the option seller opposite to JSCC that is held by the Clearing Participant which is also the Trading Participant Executing Trade and JSCC's obligations owed to the relevant Clearing Participant which is also the Trading Participant Executing Trade, pursuant to the provisions of Item (2) of Paragraph 1 of the preceding Article, shall become extinguished prospectively; at the same time, with respect to the Contract Subject to Clearing which is extinguished as a result of the completion of the relevant Give-up, the Clearing Participant which is also the Trading Participant Executing Clearance shall newly hold the position which is equivalent to that of the option seller opposite to JSCC held by the relevant Clearing Participant which is also the Trading Participant Executing Trade, and JSCC shall newly incur obligations owed to the relevant Clearing Participant which is also the Trading Participant Executing Clearance, which are equivalent to those which JSCC owed to the relevant Clearing Participant which is also the Trading Participant Executing Trade.

B) In the case where the Trading Participant Executing Trade is a buying Clearing Participant

When the Give-up is completed in accordance with the rules prescribed by the Designated Market Operator, with respect to the Contract Subject to Clearing which is extinguished as a result of the completion of the Give-up, the position of the option seller which is succeeded by JSCC from the selling Clearing Participant and the obligations owed to JSCC by the Clearing Participant which is also the Trading Participant Executing Trade, pursuant to the provisions of Item (3) of Paragraph 1 of the preceding Article, shall become extinguished; at the same time, with respect to the Contract Subject to Clearing which is extinguished as a result of the completion of the relevant Give-up, JSCC shall newly hold the position opposite to the Clearing Participant which is also the Trading Participant Executing Clearance, which is

equivalent to that of the option seller which JSCC had succeeded from the selling Clearing Participant, and the relevant Clearing Participant which is also the Trading Participant Executing Clearance shall newly incur obligations owed to JSCC, which are equivalent to those which the relevant Clearing Participant which is also the Trading Participant Executing Trade owed to JSCC.

2 The provisions of Paragraph 2 and Paragraph 3 of the preceding Article shall apply *mutatis mutandis* when the preceding Paragraph applies.

Chapter 5 Settlement of Contracts for ClearingSection 1 Settlement of Contracts for Clearing on Stocks, etc.

(Article 47 Classification of Settlement Method)

1 Contracts for Clearing<sup>\*1</sup> shall be settled either by the settlement method in which the securities are delivered to the receiving Securities Clearing Participant by JSCC only to the extent of the amount and the like of securities and money delivered to JSCC by such Securities Clearing Participant pursuant to Article 53<sup>\*2</sup>, or by other settlement methods<sup>\*3</sup>.

(<sup>\*1</sup> limited to the contracts on securities<sup>\*1-1</sup> and excluding the securities lending/borrowing prescribed in Article 64; the same applies hereinafter in this Section)

(<sup>\*1-1</sup> excluding Japanese Government Bonds)

(<sup>\*2</sup> hereinafter referred to as "DVP Settlement")

(<sup>\*3</sup> hereinafter referred to as "Non-DVP Settlement")

2 The settlement of the Contracts for Clearing on the securities listed in each of the following Items<sup>\*1</sup> shall be conducted by DVP Settlement, and the settlement of the Contracts for Clearing on the securities other than the Securities Eligible for DVP Settlement shall be conducted by Non-DVP Settlement:

(<sup>\*1</sup> hereinafter referred to as the "Securities Eligible for DVP Settlement")

(1) Stocks issued by domestic corporations<sup>\*1</sup>;

(<sup>\*1</sup> including stock acquisition right securities and preferred equity capital contribution issued by a domestic corporation)

(2) Stocks issued by foreign corporations<sup>\*1</sup>;

(<sup>\*1</sup> including stock acquisition right securities and depositary receipts for foreign stocks issued by a foreign corporation)

(3) Investment trust beneficiary securities, investment securities<sup>\*1</sup>, foreign investment trust beneficiary securities and foreign investment securities;

(<sup>\*1</sup> including Investment securities acquisition right securities)

(4) Beneficiary securities of beneficiary securities issuing trusts and beneficiary securities of foreign beneficiary securities issuing trusts;

(5) Covered warrants; and

(6) Convertible Bonds<sup>\*1\*2</sup>.

(<sup>\*1</sup> referring to the convertible-bond-type corporate bonds with stock acquisition rights where the object of the capital contribution to be made upon the exercise of the right under such stock acquisition right is the corporate bond in respect of such corporate bond with stock acquisition rights; the same applies hereinafter)

(<sup>\*2</sup> excluding the one not handled by the Japan Securities Depository Center<sup>\*2-1</sup> for its book-entry transfer business<sup>\*2-2</sup>)

(<sup>\*2-1</sup> hereinafter referred to as "JASDEC")

(\*2.2 hereinafter referred to as the “Convertible Bonds Not Handled by JASDEC”)

3 Notwithstanding the provisions of the preceding Paragraph, the settlement listed in each of the following Items shall be conducted in accordance with the provisions of the relevant Item.

(1) Settlement of Contracts for Clearing in respect of a buying/selling transaction which is to be settled on the day of its conclusion\*<sup>1</sup> and in respect of When-Issued Transaction\*<sup>2</sup>

(\*<sup>1</sup> hereinafter referred to as the “Same-Day Transaction”)

(\*<sup>2</sup> referring to the when-issued transactions prescribed in Paragraph 2 of Article 1 of Ordinance of Cabinet Office Concerning the Transaction Stipulated in Article 161-2 of the Financial Instruments and Exchange Act and the Security Money Therefor (Ordinance of the Ministry of Finance No. 75 of 1953); the same applies hereinafter)

The settlement shall be conducted by Non-DVP Settlement.

(2) Settlement of purchase for Buy-In

DVP Settlement and Non-DVP Settlement shall be applied respectively to different occasions: the delivery/receipt of money and securities prescribed in Paragraph 3 of Article 50 shall be conducted by DVP Settlement; the payment/receipt of money prescribed in Item (2) of Paragraph 1 of Article 54 shall be conducted by Non-DVP Settlement.

(3) Settlement of the sale against the purchase for Buy-In

The settlement shall be conducted by Non-DVP Settlement.

(4) In the event buying/selling was realized as a result of Buy-In, delivery of the securities\*<sup>1</sup> to the receiving Securities Clearing Participant which requested for Buy-In and the accompanying payment/receipt of money to be made on the day of the settlement of such buying/selling\*<sup>2</sup>

(\*<sup>1</sup> limited to the delivery of the securities that was deferred pursuant to Article 62 due to Delivery Failures and limited to the volume corresponding to the volume of the securities in respect of which buying/selling was realized as a result of such Buy-In)

(\*<sup>2</sup> hereinafter referred to as the “Settlement of Failed Transaction by Buy-In”)

The settlement shall be conducted by Non-DVP Settlement.

(5) Settlement of the obligation under the buying/selling of the underlying securities resulting from the exercise of the option under Security Option Contract\*<sup>1</sup>

(\*<sup>1</sup> limited to the buying/selling in respect of Security Option other than the Security Option which enables the buying or selling to be realized in the Trading Units\*<sup>1-1</sup> at the exercise price)

(\*<sup>1-1</sup> referring to the trading unit prescribed by the Designated Market Operator; the same applies hereinafter)

DVP Settlement and Non-DVP Settlement shall be applied respectively to different occasions: the delivery/receipt of money and securities prescribed in Item (1) A) of Paragraph 1 of Article 55 shall be conducted by DVP Settlement, and the payment/receipt of money prescribed in Item (1) B) and Item (2) of said Paragraph shall be conducted by

## Non-DVP Settlement.

## (Article 48 Settlement Cutoff Time)

1 Settlement Cutoff Time for DVP Settlement shall be in accordance with each of the following Items:

- (1) As for a payment/receipt of money, payment shall be completed by 2:15 P.M. and receipt shall be completed at 2:45 P.M.;
- (2) As for a delivery/receipt of securities, delivery shall be completed by 1:00 P.M. and receipt shall be completed by 2:15 P.M.

2 Settlement Cutoff Time for Non-DVP Settlement shall be in accordance with each of the following Items:

- (1) As for a payment/receipt of money, payment shall be completed by 1:00 P.M. and receipt shall be completed at 2:45 P.M.;
- (2) Delivery and receipt of securities shall be completed by 2:45 P.M.

3 The provisions of the preceding Paragraph shall not apply to the Same-Day Transaction.

## (Article 49 Uniform DVP Settlement Price)

JSCC shall set a Uniform DVP Settlement Price in respect of each issue to be settled by DVP Settlement on a daily basis in accordance with the rules of JSCC.

## (Article 50 Money and Securities Transferred for DVP Settlement)

1 The amount of money and the quantity of securities to be delivered or received by a Securities Clearing Participant for DVP Settlement shall be in accordance with each of the following Items:

(1) The amount of money shall be the amount stipulated in (a) below plus/minus the amount stipulated in (b) and (c):

(a) The difference between the Total Value of the securities sold and the Total Value of the securities purchased, calculated at Uniform DVP Settlement Prices

The difference between the Total Value<sup>\*1</sup> of the securities for sale<sup>\*2</sup> and the Total Value of the securities for purchase<sup>\*3</sup> in respect of the relevant Securities Clearing Participant's Contracts Subject to Clearing having that given day as their settlement day<sup>\*4</sup>;

(\*1 referring to the total sum of the products of Uniform DVP Settlement Price of each issue as for the settlement day multiplied by the number of the security<sup>\*1-1</sup>; the same applies hereinafter)

(\*1-1 in the case of an interest-bearing Convertible Bond, add Unit-Based Accrued Interest<sup>\*1-1-1</sup> in respect of that Bond as of that settlement day except where such day falls on the interest payment date)

(\*1-1-1 referring to the product of Accrued Interest<sup>\*1-1-1-1</sup> per trading unit multiplied

by the number obtained by dividing the relevant number of the security by the number of the security comprising one trading unit; the same applies hereinafter)

(\*<sup>1-1-1</sup> referring to the accrued interest prescribed by the Designated Market Operator in respect of buying/selling of an interest-bearing Convertible Bond; the same applies hereinafter in this Section)

(\*<sup>2</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of Paragraph 2 of Article 3, the securities to be delivered)

(\*<sup>3</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of Paragraph 2 of Article 3, the securities to be received)

(\*<sup>4</sup> referring to the settlement day<sup>\*<sup>4-1</sup></sup> prescribed by the Designated Market Operator in respect of the Contracts Subject to Clearing<sup>\*<sup>4-2</sup></sup>; the same applies hereinafter)

(\*<sup>4-1</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of Paragraph 2 of Article 3, the delivery day prescribed by the Designated Securities Finance Company)

(\*<sup>4-2</sup> only with respect to the Contracts Subject to Clearing prescribed in Item (1) and Item (7) through Item (10) of Paragraph 2 of Article 3, and the buying/selling of the underlying securities formed as a result of the exercise of the option under Security Option Contract are included; the same applies hereinafter until Article 52)

(b) The difference between contract price and Uniform DVP Settlement Price

In respect of the relevant Securities Clearing Participant's Contracts Subject to Clearing having that given day as their settlement day, the value equivalent to the difference between their respective contract prices<sup>\*<sup>1</sup></sup> and their respective Uniform DVP Settlement Prices as for that settlement day; and

(\*<sup>1</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of Paragraph 2 of Article 3, referring to the lending/borrowing prices set by each Designated Securities Finance Company; the same applies hereinafter)

(c) The difference between Accrued Interest and Unit-Based Accrued Interest

In respect of the relevant Securities Clearing Participant's Contracts Subject to Clearing on an interest-bearing Convertible Bond having that given day as their settlement day, the value equivalent to the difference between the Accrued Interest and Unit-Based Accrued Interest in respect of each issue.

(2) In respect of the relevant Securities Clearing Participant's Contracts Subject to Clearing having that given day as their settlement day, the quantity of the securities shall be the difference between the quantity for delivery and that for receipt in respect of each issue.

2 In the case where delivery of securities and accompanied payment/receipt of money are deferred to that given day pursuant to the provisions of Article 62 due to Delivery Failures occurred on the day immediately preceding that given day<sup>\*<sup>1\*2</sup></sup>, the amount of money and

quantity of securities prescribed in each of the following Items shall be included, as pertaining to such deferment, in the computation of the amount of money and the quantity of securities to be transferred for DVP Settlement set forth in the preceding Paragraph:

(\*<sup>1</sup> in the case of an interest-bearing Convertible Bond, if such given day falls on the interest payment date<sup>\*1-1</sup>, Delivery Failures occurred on the second preceding day; the same applies in Item (7) of Paragraph 1 of Article 53)

(\*<sup>1-1</sup> when the interest payment date falls on a bank holiday and the interest is paid before that interest payment date, the date on which the relevant interest is paid; the same applies hereinafter in this Section)

(\*<sup>2</sup> excluding money and securities pertaining to the Settlement of Failed Transaction by Buy-In to be conducted on that day)

(1) The amount of money set forth below<sup>\*1</sup>:

(\*<sup>1</sup> in the case of an interest-bearing Convertible Bond, if such day falls on the interest payment date, the amount of money prescribed in (a) and (b) below)

(a) The Total Value of the securities the delivery of which was deferred pursuant to the provisions of Paragraph 1 of Article 62 in the case of a delivering Securities Clearing Participant<sup>\*1</sup> and the Total Value of the securities the receipt of which was deferred pursuant to the provisions of Paragraph 2 of the same Article in the case of a receiving Securities Clearing Participant<sup>\*2</sup>;

(\*<sup>1</sup> hereinafter referred to as the "Securities Failed to be Delivered" in this Chapter)

(\*<sup>2</sup> hereinafter referred to as the "Securities Failed to be Received" in this Chapter)

(b) The value equivalent to the difference between the Uniform DVP Settlement Price as of that given day and the Uniform DVP Settlement Price as of the day immediately preceding day<sup>\*1</sup> in respect of the Securities Failed to be Delivered and the Securities Failed to be Received; and

(\*<sup>1</sup> in the case of an interest-bearing Convertible Bond, if that given day falls on the interest payment date, the Uniform DVP Settlement Price as of the second preceding day; the same applies hereinafter in Item (1) (b) of Paragraph 3 of this Article, Item (7) and Item (9) of Paragraph 1 of Article 53, and Item (2) and Item (4) of Paragraph 1 of Article 54)

(c) In the case of an interest-bearing Convertible Bond, the value equivalent to the difference between the Unit-Based Accrued Interest as of that given day and the Unit-Based Accrued Interest as of the day immediately preceding day in respect of the Securities Failed to be Delivered and the Securities Failed to be Received.

(2) The quantity of the Securities Failed to be Delivered and/or the quantity of the Securities Failed to be Received in respect of each issue.

3 In the event that the purchasing for Buy-In has been formed, the amount of the money and the quantity of the securities prescribed in each of the following Items shall be included in the computation set forth in Paragraph 1 for the amount of the money and the quantity of

the securities to be delivered or received for the DVP Settlement in respect of the Securities Clearing Participant which performed the purchasing for Buy-In:

(1) The amount of money listed below\*<sup>1</sup>:

(\*<sup>1</sup> in the case of an interest-bearing Convertible Bond, if such day falls on an interest payment date, the amount of money prescribed in (a) and (b) below)

(a) The Total Value of the securities purchased for Buy-In which are to be settled on that day pursuant to Paragraph 2 of Article 63;

(b) The value equivalent to the difference between the Uniform DVP Settlement Price as of that given day and the Uniform DVP Settlement Price as of the day immediately preceding day in respect of the securities purchased for Buy-In which are to be settled on that day pursuant to Paragraph 2 of Article 63; and

(c) In the case of an interest-bearing Convertible Bond, the value equivalent to the difference between the Unit-Based Accrued Interest as of that given day and the Unit-Based Accrued Interest as of the day immediately preceding day in respect of the securities purchased for Buy-In which are to be settled on that day pursuant to Paragraph 2 of Article 63.

(2) The quantity of the securities in respect of each issue purchased for Buy-In which are to be settled on that day pursuant to Paragraph 2 of Article 63.

4 In the case where delivery of securities and the accompanied payment/receipt of money are to be deferred pursuant to Article 62 due to an occurrence of Delivery Failures on that day, the amount of the money and the quantity of the securities prescribed in each of the following Items shall be excluded, as pertaining to such deferment, from the computation set forth in Paragraph 1 for the amount of money and the quantity of securities to be delivered or received for DVP Settlement:

(1) The Total Value of the Securities Failed to be Delivered and the Total Value of the Securities Failed to be Received;

(2) The quantity of the Securities Failed to be Delivered and/or the quantity of the Securities Failed to be Received in respective of each issue.

(Article 51 Provisional Payment for DVP Settlement)

1 In the case where the amount of money to be paid or received for DVP Settlement which is provisionally calculated in accordance with the preceding Article\*<sup>1</sup> on the assumption that no Delivery Failure will occur on that given day\*<sup>2</sup> turns out to be payable by an Securities Clearing Participant, such Securities Clearing Participant shall deposit the Provisional Payment Amount for DVP Settlement with JSCC by 1:00 P.M. on that day in order to secure the performance of the obligation of such Securities Clearing Participant under the Contracts Subject to Clearing owed to JSCC.

(\*<sup>1</sup> excluding Paragraph 4)

(\*<sup>2</sup> hereinafter referred to as the "Provisional Payment Amount for DVP Settlement")

2 Upon the final determination of the amount of money to be paid or received for DVP Settlement prescribed in the preceding Article\*<sup>1</sup>, the Provisional Payment Amount for DVP Settlement deposited with JSCC pursuant to the provisions of the preceding Paragraph shall be applied toward the payment of the Payment Amount for DVP Settlement. In such case, if the Payment Amount for DVP Settlement turns out to be less than the Provisional Payment Amount for DVP Settlement deposited with JSCC pursuant to the provisions of the preceding Paragraph due to an occurrence of Delivery Failures on that day, the Securities Clearing Participant shall receive from JSCC a refund of the money equivalent to the surplus portion of the Provisional Payment Amount for DVP Settlement at 2:45 P.M. on that day.

(\*<sup>1</sup> hereinafter referred to as the "Payment Amount for DVP Settlement")

3 The payment and receipt set forth in the preceding two Paragraphs shall be made in accordance with the rules of JSCC.

(Article 52 Settlement-Facilitating Security Money for DVP Settlement)

1 In respect of DVP Settlement, a Securities Clearing Participant may deposit with JSCC Security Money for Facilitating DVP Settlement until 2 P.M. on the settlement day in order to secure the performance of the obligation of such Securities Clearing Participant under the Contracts Subject to Clearing owed to JSCC so that such Securities Clearing Participant will be able to receive securities before making a deposit of the Provisional Payment Amount for DVP Settlement and/or delivery of securities.

2 The Security Money for Facilitating DVP Settlement may be deposited in the form of securities\*<sup>1</sup> in lieu of cash in accordance with the rules of JSCC.

(\*<sup>1</sup> limited to those JSCC deems appropriate taking the liquidity and other factors into account)

3 The substituting value of the securities prescribed in the preceding Paragraph shall be calculated by multiplying the market price, as determined by JSCC, of the relevant securities as of the day which precedes the settlement day by two days, by a certain rate determined by JSCC; provided, however, that in cases such as an excessive fluctuation in the market, JSCC may extraordinarily change the substituting value when JSCC deems it particularly necessary to do so.

4 In addition to the provisions set forth in the preceding two Paragraphs, matters concerning the securities in lieu of cash for the Security Money for Facilitating DVP Settlement shall be prescribed by JSCC.

(Article 53 Limitation on Delivery of Securities from JSCC to Receiving Securities Clearing Participant in DVP Settlement)

1 In DVP Settlement, the delivery of the securities from JSCC to the receiving Securities Clearing Participant shall be made in accordance with the rules of JSCC to the extent that

the Total Value of the securities to be so delivered does not exceed the amount obtained by; subtracting the amount stipulated in Item (4) from the total sum of the values stipulated in Item (1) through Item (3), and then adding or subtracting the values stipulated in Item (5) through Item (10)\*<sup>1</sup> to or from the difference:

(\*<sup>1</sup> in the case of an interest-bearing Convertible Bond, if the given day falls on the interest payment date, excluding Item (8) and Item (10))

- (1) The Total Value of the securities delivered to JSCC by the relevant receiving Securities Clearing Participant;
- (2) The amount of money the relevant receiving Securities Clearing Participant deposited with JSCC as the Provisional Payment Amount for DVP Settlement plus the amount of money it paid to JSCC as the Payment Amount for DVP Settlement\*<sup>1</sup>;  
(\*<sup>1</sup> excluding the portion of the amount which is applied toward the payment pursuant to the provisions of Paragraph 2 of Article 51)
- (3) The value of the Security Money for Facilitating DVP Settlement deposited with JSCC by the relevant receiving Securities Clearing Participant in accordance with the provisions of the preceding Article;
- (4) The Total Value of the securities delivered to the relevant receiving Securities Clearing Participant by JSCC\*<sup>1</sup>;  
(\*<sup>1</sup> the value is calculated by excluding the securities to which the provisions of the following Paragraph applies)
- (5) The value equivalent to the difference between the contract prices and the Uniform DVP Settlement Prices on that given day, as prescribed in Item (1) (b) of Paragraph 1 of Article 50;
- (6) In respect of an interest-bearing Convertible Bond, the value equivalent to the difference between the Accrued Interest and the Unit-Based Accrued Interest as of that given day, as prescribed in Item 1 (c) of Paragraph 1 of Article 50;
- (7) The value equivalent to the difference between the Uniform DVP Settlement Prices as of that given day and the Uniform DVP Settlement Prices as of the day immediately preceding day in respect of the Delivery Failures which occurred on such immediately preceding day, as prescribed in Item (1) (b) of Paragraph 2 of Article 50;
- (8) In respect of an interest-bearing Convertible Bond, the value equivalent to the difference between the Unit-Based Accrued Interest as of that given day and the Unit-Based Accrued Interest as of the day immediately preceding day in respect of the Delivery Failures which occurred on such immediately preceding day, as prescribed in Item (1) (c) of Paragraph 2 of Article 50;
- (9) The value equivalent to the difference between the Uniform DVP Settlement Price as of that given day and the Uniform DVP Settlement Price as of the day immediately preceding day in respect of the securities purchased for Buy-In which are to be settled on that given day, as prescribed in Item (1) (b) of Paragraph 3 of Article 50; and

(10) In respect of an interest-bearing Convertible Bond, the value equivalent to the difference between the Unit-Based Accrued Interest as of that given day and the Unit-Based Accrued Interest as of the immediately preceding day in respect of the securities purchased for Buy-In which are to be settled on that given day, as prescribed in Item (1) (c) of Paragraph 3 of Article 50.

2 Notwithstanding the provisions of the preceding Paragraph, the delivery by JSCC to a receiving Securities Clearing Participant of the Convertible Bonds in respect of which that given day falls on the days\*<sup>1</sup> prescribed in Item 2 or Item 3 of Paragraph 3 of Article 64 shall be made in accordance with the rules of JSCC.

(\*<sup>1</sup> if such day falls on a Non-business Day, the day immediately preceding such day)

(Article 54 Money and Securities Transferred for Non-DVP Settlement)

1 The amount of money and the quantity of securities delivered or received by a Securities Clearing Participant for Non-DVP Settlement shall be in accordance with each of the following Items:

(1) Settlement of Same-Day Transaction

In respect of the same Securities Clearing Participant, the difference between the total amount of sales proceeds and the total amount of purchase money, and the difference between the quantity of securities sold and the quantity of securities purchased in respect of each issue.

(2) Settlement of purchase for Buy-In

The value equivalent to the difference between the contract price for the relevant purchases with the same settlement day made by the same Securities Clearing Participant, and the Uniform DVP Settlement Price as of the day immediately preceding the settlement day\*<sup>1</sup>

(\*<sup>1</sup> in respect of an interest-bearing Convertible Bond, including the value equivalent to the difference between the Accrued Interest on that given day and the Unit-Based Accrued Interest on the immediately preceding day\*<sup>1-1</sup>)

(\*<sup>1-1</sup> excluding the case where that given day falls on the interest payment date)

(3) Settlement of sale opposite the purchase for Buy-In

In respect of the same Securities Clearing Participant, the total selling price of sales, and the quantity of the securities sold in respect of each issue, having the same settlement day.

(4) In the event that a buying/selling was formed as a result of Buy-In, the Settlement of Failed Transaction by Buy-In to be conducted on the settlement day of such buying/selling transaction

The amount of money prescribed in (a) below and the quantity of securities prescribed in (b) below:

(a) In respect of the quantity of securities prescribed in (b) below, the total sum of the

products of the quantity of the securities multiplied by the Uniform DVP Settlement Price as of the immediately preceding day in respect of each issue<sup>\*1</sup>; and

(<sup>\*1</sup> in respect of an interest-bearing Convertible Bond, including the Unit-Based Accrued Interest as of the immediately preceding day<sup>\*1-1</sup>)

(<sup>\*1-1</sup> excluding the case where such day falls on the interest payment date)

(b) The quantity of the securities in respect of each issue to be received as a result of the Settlement of Failed Transaction by Buy-In to be conducted on the same settlement date by the same Securities Clearing Participant.

(5) Settlement other than those set forth in each of the preceding Items

In respect of the same Securities Clearing Participant, the difference between the total amount of sales proceeds<sup>\*1</sup> and the total amount of purchase money<sup>\*2</sup>, and the difference between the total quantity of securities sold<sup>\*3</sup> and the total quantity of securities purchased<sup>\*4</sup> in respect of each issue, which are to be settled on the same day.

(<sup>\*1</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of Paragraph 2 of Article 3, the total amount of money to be received)

(<sup>\*2</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of said Paragraph, the total amount of money to be paid)

(<sup>\*3</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of said Paragraph, the total quantity of securities to be delivered)

(<sup>\*4</sup> in the case of the Contracts Subject to Clearing prescribed in Item (7) through Item (9) of said Paragraph, the total quantity of securities to be received)

2 The amounts of money prescribed in Item (2) through Item (4) of the preceding Paragraph shall be paid or received, being included in the amount of money prescribed in Item (5) of said Paragraph, and the quantities of the securities prescribed in Item (3) and Item (4) of said Paragraph shall be delivered or received after they are offset against each other.

(Article 55 Money and Securities Transferred for Settlement of Buying/Selling Underlying Securities Resulting from the Exercise of Security Option)

1 Notwithstanding the provisions of Paragraph 1 of Article 50 and the preceding Article, the amount of money and the quantity of securities to be delivered or received by the Securities Clearing Participant for the settlement of the Contracts for Clearing in respect of the selling/buying of the underlying securities resulting from the exercise of Security Option Contract<sup>\*1</sup> shall be as prescribed in the following Items, based on the classification referenced in each Item:

(<sup>\*1</sup> limited to the buying/selling in respect of Security Option other than the Security Option which enables the buying or selling to be realized in the Trading Units at the exercise price)

(1) In the case where the quantity in respect of the buying/selling of the underlying security resulting from the exercise of the minimum unit of option exceeds the quantity

comprising the Trading Unit of the relevant underlying security:

A) Portion Corresponding to the Trading Unit Quantity<sup>\*1</sup>

(\*1 referring to the quantity obtained by subtracting the quantity of the underlying security which fall short of comprising its trading unit, from the quantity of the underlying security to be bought/sold as a result of the exercise of the minimum unit of the option; the same applies hereinafter in this Article)

(a) The difference between the Total Value of securities sold and the Total Value of securities bought calculated at the Uniform DVP Settlement Prices

In respect of the buying/selling of the underlying securities resulting from the exercise of options by the relevant Securities Clearing Participant which are to be settled on the given day, the difference between the Total Value<sup>\*1</sup> of securities for sale and the Total Value of securities for purchase;

(\*1 referring to the total amount, in respect of each issue of the underlying securities, obtained by multiplying the Trading Unit Quantity by the Uniform DVP Settlement Price as of the given day, and then multiplying the resulting product by the number of the Security Option exercised; the same applies hereinafter)

(b) The difference between exercise price and Uniform DVP Settlement Price

In respect of the buying/selling of the underlying securities resulting from the exercise of option by the relevant Securities Clearing Participant which is to be settled on the given day, the value equivalent to the difference between the exercise price and the Uniform DVP Settlement Price as of the given day pertaining to the Trading Unit Quantity;

(c) The quantity of securities obtained by multiplying the Trading Unit Quantity by the number of Security Option exercised.

B) Portion Corresponding to the Residual Quantity Less Than One Trading Unit Quantity<sup>\*1</sup>

(\*1 referring to the quantity obtained by subtracting the Trading Unit Quantity from the quantity of the underlying securities to be bought/sold as a result of the exercise of the minimum unit of the option; the same applies hereinafter in this Article)

(a) The price of the buying/selling of the underlying securities resulting from the exercise of option<sup>\*1</sup>

(\*1 referring to the value obtained by multiplying Residual Quantity Less Than One Trading Unit Quantity by the exercise price, and then multiplying the resulting product<sup>\*1-1</sup> by the number of the Security Option exercised)

(\*1-1 fraction less than 1 yen shall be rounded down)

(b) The amount of money equivalent to the value which is obtained by multiplying Residual Quantity Less Than One Trading Unit Quantity by the Option Settlement Price<sup>\*1</sup>, and then multiplying the resulting product<sup>\*2</sup> by the number of the Security Option exercised

(\*1 in respect of the buying/selling of the underlying securities resulting from the exercise of the option under Security Option Contract, referring to the Option Settlement Price prescribed in Paragraph 5 of Article 73-4; the same applies hereinafter in this Article)

(\*2 fraction less than 1 yen shall be rounded down)

(2) In the case where the quantity in respect of the buying/selling of the underlying security resulting of the exercise of the minimum unit of the option is less than the quantity comprising the Trading Unit of the relevant underlying security:

A) The price of the buying/selling of the underlying securities resulting from the exercise of option<sup>\*1</sup>

(\*1 referring to the value obtained by multiplying the quantity in respect of the buying/selling of the underlying securities resulting of the exercise of the minimum unit of the option by the exercise price, and then multiplying the resulting product<sup>\*1-1</sup> by the number of the Security Option exercised)

(\*1-1 fraction less than 1 yen shall be rounded down)

B) The amount of money equivalent to the value which is obtained by multiplying the quantity in respect of the buying/selling of the underlying securities resulting of the exercise of the minimum unit of the option by the Option Settlement Price, and then multiplying the resulting product<sup>\*1</sup> by the number of the Security Option exercised

(\*1 fraction less than 1 yen shall be rounded down)

2 The amount of money and the quantity of securities to be delivered or received pursuant to Item (1) A) of the preceding Paragraph shall be included in the amount of money and the quantity of securities to be delivered or received for DVP Settlement prescribed in Paragraph 1 of Article 50, and the amount of money to be paid or received pursuant to Item (1) B) and Item (2) of the preceding Paragraph shall be included in the amount of money to be paid or received for Non-DVP Settlement prescribed in Item (5) of Paragraph 1 of the preceding Article. In such cases, the money prescribed in Item (1) B) (b) or (2) B) of the preceding Paragraph shall be included in the total amount of purchase money which is prescribed in Item (5) of Paragraph 1 of the preceding Article if the Participant is the selling Securities Clearing Participant in respect of the buying/selling of the underlying securities resulting from the exercise of option; and shall be included in the total amount of sales proceeds which is prescribed in the same Item if the Participant is the buying Securities Clearing Participant in respect of the relevant buying/selling.

(Article 56 Settlement Method)

1 The payment and receipt of money for settling Contracts for Clearing shall be made between Clearing Participant and JSCC, and receipt and payment of money in this case shall be governed in accordance with the rules of JSCC.

2 The delivery and receipt of securities for settling Contracts for Clearing shall be made as

prescribed in the following Items, based on the classification of securities referenced in each Item:

(1) Securities Eligible for DVP Settlement;

It shall be made through the book-entry transfer carried out in JASDEC between Clearing Participant and JSCC. In such case, the request for a transfer from the account of the delivering Securities Clearing Participant to the account of JSCC shall be made to JASDEC by JSCC on behalf of the delivering Securities Clearing Participant, and the request for a transfer from the account of JSCC to the account of the receiving Securities Clearing Participant shall be made to JASDEC by JSCC;

(2) Bonds\*<sup>1</sup>; and

(\*<sup>1</sup> excluding Japanese Government Bonds and corporate bonds with stock acquisition rights)

It shall be made between Clearing Participant and JSCC by the book-entry transfer between the accounts held at JASDEC;

(3) Securities other than those stipulated in the preceding two Items.

It shall be made between Clearing Participant and JSCC by delivering and receiving the certificate of securities.

(Article 57) Deleted

(Article 58 Combination of Certificates of Securities to be Delivered)

The combination of the kinds of the certificate of securities to be delivered by the delivering Securities Clearing Participant for the settlement of the securities stipulated in Item (3) of Paragraph 2 of Article 56 shall be governed by the rules of JSCC.

(From Article 59 to Article 61) Deleted

(Article 62 Handling of Delivery Failure in DVP Settlement)

1 In respect of DVP Settlement, in the event that the delivering Securities Clearing Participant fails to deliver the securities by the cutoff time for the DVP Settlement\*<sup>1</sup> due to an unavoidable reason\*<sup>2</sup>, the delivery of the relevant securities and the accompanied payment/receipt of money shall be deferred to the immediately following day\*<sup>3</sup>.

(\*<sup>1</sup> including the delivery of the securities the settlement of which was deferred on the day immediately preceding this settlement day\*<sup>1-1</sup> pursuant to the provisions of this Article)

(\*<sup>1-1</sup> in the case of an interest-bearing Convertible Bond, if this settlement day falls on the interest payment date, on the day which precedes this settlement day by two days)

(\*<sup>2</sup> hereinafter referred to as "the Case of Delivery Failure" in this Section)

(\*<sup>3</sup> in the case of an interest-bearing Convertible Bond, if that immediately following day falls on the day which immediately precedes the interest payment date, the second following

day<sup>\*3-1</sup>; the same applies hereinafter in this Article and the following Article)

(\*3-1 if such day falls on a Non-business Day, it shall be the immediately following business day)

2 In the case where a delivery of securities from the Securities Clearing Participant that has made the Delivery Failure to JSCC was deferred pursuant to the preceding Paragraph, the delivery to the receiving Securities Clearing Participant of the securities designated by JSCC on each applicable occasion in respect of the relevant deferment and the accompanied payment/receipt of money shall be deferred to the following day.

(Article 62-2 Prohibition, etc. of Causing Delivery Failure in DVP Settlement)

1 Securities Clearing Participant is prohibited from causing Delivery Failure in settlement of securities on the days designated by JSCC as necessary.

2 In addition to the provisions of the preceding Paragraph, Securities Clearing Participant is prohibited from causing Delivery Failure in settlement of securities without good reason.

(Article 62-3 Other Handlings of Delivery Failure)

In addition to the provisions of the preceding two Articles, matters necessary for the handling of the Case of Delivery Failure shall be prescribed in the rules of JSCC.

(Article 63 Buy-In)

1 Buy-In is a purchase of securities in the Case of Delivery Failure in order to complete the settlement of the unsettled Contracts for Clearing, and is carried out at the request of the receiving Securities Clearing Participant in respect of the relevant Delivery Failure in accordance with the rules of JSCC by and on the account of the Securities Clearing Participant that has made the relevant Delivery Failure.

2 The settlement of the buying/selling resulting from Buy-In shall be carried out on the day immediately following the day on which the buying/selling contract was concluded; provided, however, that in respect of buying/selling of an interest-bearing Convertible Bond resulting from Buy-In, in the case where such following day falls on the day stipulated in Item (4) of Paragraph 3 of the following Article, the settlement shall be carried out on the day<sup>\*1</sup> which follows the day on which the buying/selling contract was concluded by two days.

(\*1 if such day falls on a Non-business Day, it shall be the immediately following business day)

3 The matters necessary for Buy-In shall be prescribed in the rules of JSCC.

(Article 64 Settlement by Due Bills)

1 In respect of Non-DVP Settlement<sup>\*1</sup>, in the event that the delivering Securities Clearing Participant is not able to deliver the securities by the cutoff time for the Non-DVP Settlement due to an unavoidable reason, and has proven the relevant reason to JSCC and obtained

an approval from the Securities Clearing Participant which is designated by JSCC as the receiver of a due bill<sup>\*2</sup>, such delivering Securities Clearing Participant may issue a due bill to JSCC, and JSCC may deliver the due bill to DB-Receiving Securities Clearing Participant. In this case, the settlement of the securities shall be deemed to have been completed by the delivery of such due bill.

(\*<sup>1</sup> excluding settlement of When-Issued Transaction)

(\*<sup>2</sup> hereinafter referred to as "DB-Receiving Securities Clearing Participant")

2 In addition to the provisions of the preceding Paragraph, in respect of the settlement of Contracts for Clearing on a When-Issued Transaction, in the event that the delivery of the securities cannot be made by the cutoff time for the Non-DVP Settlement, and if JSCC especially deems it necessary to do so, the delivering Securities Clearing Participant, after obtaining an approval from the DB-Receiving Securities Clearing Participant, may deliver a due bill to JSCC and JSCC may deliver the due bill to the DB-Receiving Securities Clearing Participant. In this case, the settlement of securities shall be deemed to have been completed by the delivery of such due bill.

3 The settlement of the securities lending/borrowing pertaining to due bills shall be carried out by the fourth business day after the day on which such due bills were issued<sup>\*1</sup>; provided, however, that in the case where any day listed in each of the following Items arrives during the time between the day on which such due bills are issued and the Settlement Cutoff Date for Securities Lending/Borrowing Pertaining to Due Bill, the settlement of the securities lending/borrowing pertaining to the due bills shall be carried out by the day immediately preceding<sup>\*2</sup> the day listed in each of the following Items, except for the case where an approval by the DB-Receiving Securities Clearing Participant has been granted:

(\*<sup>1</sup> hereinafter referred to as the "Settlement Cutoff Date for Securities Lending/Borrowing Pertaining to Due Bill" in this Article)

(\*<sup>2</sup> when the day listed in each of the following Items falls on a Non-business Day, the day preceding by two days)

(1) Record date, etc. for fixing the shareholders<sup>\*1</sup>;

(\*<sup>1</sup> including preferred equity holders, capital subscribers, beneficiaries, investment unit holders and owners)

(2) The day immediately preceding the day on which a change<sup>\*1</sup> in the consideration for the acquisition set by the issuer of classified stock is to be made<sup>\*2</sup>; the day immediately preceding<sup>\*3</sup> the day<sup>\*4</sup> on which a change in the number of shares represented by a depositary receipt for foreign stocks set by the depositary facility is to be made; the day immediately preceding the day on which a change<sup>\*5</sup> in the conditions for the exercise of the right under a Convertible Bond set by its issuer is to be made<sup>\*6</sup>; and the day immediately preceding the day on which a change<sup>\*7</sup> in the exchanging condition of an Exchangeable Corporate Bond<sup>\*8</sup> set by its issuer is to be made;

(\*<sup>1</sup> including the suspension of the period during which a demand for acquisition may be

made)

(\*2 in respect of a stock with put option, if the intermediary of the demand for acquisition is restricted in JASDEC on such preceding day, referring to the last day on which the demand for acquisition may be made under the original condition before such change)

(\*3 in the case where JSCC deems it necessary to designate a day other than such preceding day, the day designated by JSCC in each case)

(\*4 in the case where the relevant depositary facility sets the period during which an exchange between the depositary receipt for foreign stocks and the stocks issued by the foreign corporation pertaining to the rights represented by such depositary receipt for foreign stocks is suspended or restricted, referring to such period's commencement day)

(\*5 including the suspension of the exercise period)

(\*6 if the intermediary of the demand for exercise of the right is restricted in JASDEC on such preceding day, referring to the last day on which the demand for exercise of the right may be made under the original condition before such change)

(\*7 including the suspension of the period during which a demand for exchange may be made)

(\*8 referring to the securities stipulated in Item 5 of Paragraph 1 of Article 2 of the Act or the securities stipulated in Item 17 of the same Paragraph having the characteristics of the securities stipulated in Item 5 of the same Paragraph<sup>\*8-1</sup>, which are redeemable in exchange for the stocks of a specific company other than the issuer at the request of the holder of the Corporate Bond; the same applies hereinafter)

(\*8-1 hereinafter referred to as "Corporate Bond" in this Item.)

(3) The last day of the period during which the demand for redemption before maturity may be made in respect of the Convertible Bond/Exchangeable Corporate Bond embedded with the right to demand redemption before maturity;

(4) The day immediately preceding the interest payment date in respect of an interest-bearing bond<sup>\*1</sup> or an interest-bearing Convertible Bond<sup>\*2</sup>.

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

(\*2 excluding the Convertible Bonds Not Handled by JASDEC)

(5) In respect of investment trust beneficiary securities, in the event that the intermediary of demand for beneficiary registration is processed in JASDEC, the record date for the beneficiary; and

(6) The exercise date in respect of covered warrant.

4 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC specifically deems it necessary, the delivering Securities Clearing Participant may, after obtaining an approval from the DB-Receiving Securities Clearing Participant, change the

Settlement Cutoff Date for Securities Lending/Borrowing pertaining to Due Bill to the date JSCC deems appropriate.

- 5 Notwithstanding the provisions of Paragraph 1, the delivery of securities to JSCC to be made pursuant to the provisions of Item (3) of Paragraph 1 of Article 54 cannot be settled pursuant to this Article by delivering a due bill.

(Article 64-2 Prohibition of the abuse of Due Bills)

Securities Clearing Participant is prohibited from issuing due bills abusively.

(Article 64-3 Other Handlings of Due Bills)

In addition to the preceding two Articles, necessary matters concerning due bills shall be prescribed in the rules of JSCC.

(Article 65 Exchange of Delivered/Received Securities Pertaining to Redemption by Drawing)

In the case where the bond which has been decided to be redeemed as a result of drawing\*1 was delivered for settlement after the day on which the relevant "winning" number had been published, the Securities Clearing Participant which has received the relevant Bond Drawn for Redemption may, pursuant to the rules prescribed by JSCC, demand the Securities Clearing Participant which delivered the relevant Bond Drawn for Redemption to JSCC to exchange it for other bond of the same issue.

(\*1 excluding the bond which is handled by JASDEC as its book-entry transfer business and Japanese Government Bonds; hereinafter referred to as the "Bond Drawn for Redemption" in this Article)

(Article 66 Settlement Price for When-Issued Transaction)

JSCC shall set a Settlement Price on a daily basis in accordance with the rules of JSCC for each issue in respect of which When-Issued Transaction is transacted.

(Article 67 Payment/Receipt of Difference between Contract Price of and Settlement Price for When-Issued Transaction)

- 1 In respect of When-Issued Transaction, if there is any difference in amount between the contract price and the Settlement Price as of the day of the conclusion of the relevant buying/selling contract, the Securities Clearing Participant shall, in accordance with the rules of JSCC, pay/receive money equivalent to such difference to/from JSCC by the Settlement Cutoff Time for Non-DVP Settlement on the third day following the day on which the When-Issued Transaction was formed.
- 2 The amount of money stipulated in the preceding Paragraph shall be included in the value prescribed in Item (5) of Paragraph 1 of Article 54.

(Article 68 Payment/Receipt of Difference between Settlement Prices for When-Issued Transaction)

- 1 If there is any difference in amount between the Settlement Price as of the given day and the Settlement Price on the immediately preceding day, the Securities Clearing Participant shall, in accordance with the rules of JSCC, pay/receive money equivalent to such difference to/from JSCC by the Settlement Cutoff Time for Non-DVP Settlement on the third day following such given day.
- 2 The provisions of Paragraph 2 of the preceding Article shall apply *mutatis mutandis* to the payment/receipt of money prescribed in the preceding Paragraph.

(Article 69 Final Settlement Price for When-Issued Transaction)

The final Settlement Price for When-Issued Transaction shall be the Settlement Price on the last trading day\*<sup>1</sup> of the relevant When-Issued Transaction.

(\*<sup>1</sup> referring to the last trading day set by each Designated Market Operator)

(Article 70 Margin for When-Issued Transaction)

- 1 A Securities Clearing Participant shall deposit with JSCC the Margin for When-Issued Transaction in the amount not less than the amount calculated in accordance with the rules of JSCC by 2 P.M. on the third day following the day on which the relevant When-Issued Transaction was formed; provided, however, that in the case where the Securities Clearing Participant has any buying/selling position which is opposed to the selling/buying position of the same issue, the deposit of the Margin in the amount calculated in respect of the difference between the total quantity of selling position and the total quantity of buying position shall be sufficient.
- 2 Securities\*<sup>1</sup> may be deposited in lieu of cash as the Margin prescribed in the preceding Paragraph in accordance with the rules of JSCC.

(\*<sup>1</sup> limited to the securities JSCC deems appropriate taking into account the liquidity and other factors)

- 3 The substituting value of the securities prescribed in the preceding Paragraph shall be calculated by multiplying the market price determined by JSCC as of the day which precedes the day of the deposit by two days by a certain rate determined by JSCC.
- 4 In addition to the provisions of the preceding two Paragraphs, matters concerning the securities to be deposited in lieu of cash as the Margin shall be prescribed by JSCC.
- 5 JSCC may extraordinarily change the amount, time and date prescribed in Paragraph 1, and the substituting value prescribed in Paragraph 3, when JSCC deems it particularly necessary to do so in cases such as there is an excessive fluctuation in the market.

Section 2 Settlement of Contracts for Clearing on Japanese Government Bonds.

## (Article 71 Money and JGBs to be Delivered/Received for Settlement)

The amount of money and the quantity of Japanese Government Bonds to be delivered or received by Securities Clearing Participant between JSCC in order to settle Contracts for Clearing on Japanese Government Bonds\*<sup>1</sup> shall be the price for the buying/selling and the quantity of Japanese Government Bonds in respect of each conclusion of the buying/selling contract.

## (Article 72 Settlement Cutoff Time and Settlement Method)

1 The delivery and receipt of money and Japanese Government Bonds for settling Contracts for Clearing on Japanese Government Bonds shall be carried out between Clearing Participant and JSCC through the DVP Settlement in BOJ-NET JGB Service System in accordance with each of the following Items:

- (1) The Securities Clearing Participant delivering Japanese Government Bond shall, in accordance with the rules of JSCC, deliver it by 1:30 P.M. on the settlement day and receive the money;
- (2) The Securities Clearing Participant making payment shall, in accordance with the rules of JSCC, pay the money by 2:00 P.M. on the settlement day and receive the Japanese Government Bonds.

2 In carrying out the settlement pursuant to the provisions of the preceding Paragraph, the Securities Clearing Participant shall make efforts to ensure a smooth settlement.

## (Article 73 Handling of the Case of Delivery Failure)

1 In respect of the settlement of Contracts for Clearing on Japanese Government Bonds, if the delivering Securities Clearing Participant did not deliver the Japanese Government Bonds by the cutoff time prescribed in Item (1) of Paragraph 1 of the preceding Article on the settlement day\*<sup>1</sup>, the relevant settlement shall be deferred to the following day or later.

(\*<sup>1</sup> hereinafter referred to as “the Case of Delivery Failure” in this Article)

2 In the case of the event stipulated in the preceding Paragraph, the Securities Clearing Participant that has made the Delivery Failure shall carry out the settlement by the fourth day following the original settlement day\*<sup>1</sup>. In such case, the relevant Securities Clearing Participant that has made the Delivery Failure shall notify JSCC in advance of the day on which the settlement is to be carried out, and such day shall constitute the settlement day for the Case of Delivery Failure.

(\*<sup>1</sup> excluding Non-business Days)

3 In the event that the settlement between the delivering Securities Clearing Participant and JSCC has been deferred pursuant to the provisions of Paragraph 1, the part of the settlement specified by JSCC between JSCC and the receiving Securities Clearing

Participant shall be carried out on the settlement day for the Case of Delivery Failure as set forth in the preceding Paragraph.

4 With regards to the application of the provisions of the preceding Article to the Case of Delivery Failure, the words “the settlement day” shall be interpreted to mean “the settlement day for the Case of Delivery Failure”.

5 In addition to each of the preceding Paragraphs, matters necessary for handling in the Case of Delivery Failure shall be prescribed in the rules of JSCC.

Section 3 Settlement of Security Option Contract

(Article 73-2 Offsetting-Sale or Offsetting-Purchase)

1 In the case where\*<sup>1</sup> an Index Futures Clearing Participant has executed Offsetting-Sale or Offsetting-Purchase in respect of any issue of Security Option Contract, such Index Futures Clearing Participant shall notify JSCC, in respect of each issue and by the cutoff time set by JSCC, of their amount and whether they were Offsetting-Sales or Offsetting-Purchases, by separating those for the proprietary account from those pursuant to the commissions by its customers.

(\*<sup>1</sup> excluding the case stipulated in the following Paragraph)

2 In the case where an Index Futures Clearing Participant has executed Offsetting-Sale in respect of the Long Position which are pursuant to the commissions of the Brokerage for Clearing of Securities, etc.\*<sup>1</sup>, or executed Offsetting-Purchase in respect of the Short Position which are pursuant to the commissions of the Brokerage for Clearing of Securities, etc.\*<sup>2</sup>, such Index Futures Clearing Participant shall notify JSCC, in respect of each issue and each Index Futures Non-Clearing Participant\*<sup>3</sup> pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing, and by the cutoff time set by JSCC, of their amount and whether they were Offsetting-Sales or Offsetting-Purchases, by separating those for the proprietary account from those pursuant to the commissions by its customers. In such case, an Index Futures Clearing Participant may cause the Index Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing to make such notification in place of Index Futures Clearing Participant's own notification.

(\*<sup>1</sup> hereinafter referred to as the "Long Position Subject To Brokerage for Clearing")

(\*<sup>2</sup> hereinafter referred to as the "Short Position Subject To Brokerage for Clearing")

(\*<sup>3</sup> referring to the entity which has the trading qualification in respect of Security Option Contract but does not have Index Futures Clearing Qualification; the same applies hereinafter in this Section)

3 When JSCC has received the notification pursuant to the provisions of Paragraph 1, the notified amount of the Offsetting-Sales/Offsetting-Purchases shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position or the Short Position of the relevant Index Futures Clearing Participant.

4 When JSCC has received the notification of the Offsetting-Sale in respect of Long Position Subject To Brokerage for Clearing or the Offsetting-Purchase in respect of Short Position Subject To Brokerage for Clearing pursuant to the provisions of Paragraph 2, the notified amount of the Offsetting-Sales/Offsetting-Purchases shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position Subject To Brokerage for Clearing or the Short Position Subject To Brokerage for Clearing

of the Designated Clearing Participant designated by the Index Futures Non-Clearing Participant subject to such notification which relates to the relevant Index Futures Non-Clearing Participant.

5 When JSCC has received the notification set forth in Paragraph 1 or Paragraph 2, JSCC shall inform the Designated Market Operator\*<sup>1</sup> of the detail of the Offsetting-Sales and/or the Offsetting-Purchases so notified.

(\*<sup>1</sup> referring to the Designated Market Operator operating the Designated Financial Instruments Market prescribed in Item (2) of Paragraph 2 of Article 3; the same applies hereinafter in this Section)

(Article 73-3 Payment/Receipt of Contract Price)

When a Contract for Clearing in respect of Security Option Contract is formed, the Index Futures Clearing Participant shall pay/receive the contract price therefor to/from JSCC on the day immediately following the day of the conclusion of the trading contract. In such case, an Index Futures Clearing Participant making payment shall pay the money by 1:00 P.M., and an Index Futures Clearing Participant receiving payment shall receive the money at 2:45 P.M. of the day on which the relevant money is to be paid or received.

(Article 73-4 Notification of Exercise of Option)

1 An exercise of the option pertaining to the Long Position\*<sup>1</sup> of Security Option Contract shall be done by the Index Futures Clearing Participant's notifying JSCC of the amount pertaining to the exercise in respect of each issue by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC which precedes the expiration time of the Security Option Contract specified by the Designated Market Operator.

(\*<sup>1</sup> excluding the Long Position Subject To Brokerage for Clearing)

2 An exercise of the option pertaining to the Long Position\*<sup>1</sup> of Security Option Contract shall be done by the Index Futures Clearing Participant's notifying JSCC of the amount pertaining to the exercise in respect of each issue and each Index Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing, and by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC which precedes the expiration time of the Security Option Contract specified by the Designated Market Operator. In such case, an Index Futures Clearing Participant may cause the Index Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing to make such notification in place of Index Futures Clearing Participant's own notification.

(\*<sup>1</sup> limited to the Long Position Subject To Brokerage for Clearing)

3 Regarding the issue which falls under any of the following Items on the Exercise Date\*<sup>1</sup>, the notification of the exercise of the option on that issue shall be deemed to have been made

even though the notification of the exercise of the option set forth in the preceding two Paragraphs is not made on the relevant day by the cutoff time set by JSCC under said Paragraphs; provided, however, that the foregoing shall not apply in the case where the Index Futures Clearing Participant notified by such cutoff time to the effect that it will not exercise the option in respect of such issue:

(\*1 referring to the exercise date specified by the Designated Market Operator in respect of the Security Option Contract; the same applies hereinafter in this Section)

(1) In respect of Individual Put Option, in the case where the exercise price exceeds the Option Reference Price\*1;

(\*1 referring to the Option Reference Price prescribed in Paragraph 5; the same applies hereinafter in this Section)

(2) In respect of Individual Call Option, in the case where the exercise price is lower than the Option Reference Price.

4 In the case where JSCC deems it inappropriate to regard the notification of the exercise of option as having been made pursuant to the provisions in the main clause of the preceding Paragraph due to a system failure in the Designated Market Operator's trading system or some other unavoidable reasons, such provisions of the main clause in said Paragraph shall not apply.

5. Option Reference Price shall be the last price\*1 of the underlying security on the Exercise Date, and in the case where there is no contract price\*2 on that Exercise Date, the Option Reference Price shall be the latest contract price; provided, however, that in the case where there is no contract price after the last ex-right day of that underlying security, the Option Reference Price shall be the price set by JSCC on each applicable occasion.

(\*1 referring to the last price of the underlying security in the Financial Instruments Market designated by the Designated Market Operator, and including the final quote that is posted in accordance with the rules of the operator of such Financial Instruments Market)

(\*2 including the final quote that is posted in accordance with the rules of the Designated Market Operator; the same applies hereinafter in this Article)

6 When JSCC has received the notification of the exercise of option prescribed in Paragraph 1 or Paragraph 2\*1, JSCC shall inform the detail of the exercise of option so notified to the Designated Market Operator.

(\*1 including the case where the notification of the exercise of option is deemed to have been received pursuant to the provisions of Paragraph 3)

7 An Index Futures Clearing Participant which has designated a Designated Securities Clearing Participant, when it has filed the notification of the exercise of option pursuant to the provisions of Paragraph 1\*1, shall notify such Designated Securities Clearing Participant to such effect without delay.

(\*1 including the case where the notification of the exercise of option is deemed to have been

received pursuant to the provisions of Paragraph 3)

(Article 73-5 Assignment of Exercised Option)

- 1 When an Index Futures Clearing Participant notifies the exercise of option, JSCC shall make the assignment of the quantity of the exercised option in respect of each issue in accordance with the rules of JSCC.
- 2 When JSCC makes the assignment of the exercised option pursuant to the provisions in the preceding Paragraph, JSCC shall notify the Index Futures Clearing Participant to whom such assignment is made\*<sup>1</sup> of the quantity of the relevant assignment by separating those for the proprietary account from those pursuant to the commissions by its customers.  
(\*<sup>1</sup> in the case where the exercised option is assigned to the Short Position Subject To Brokerage for Clearing, the assigned quantity of each Index Futures Non-Clearing Participant pertaining to the relevant Short Position Subject To Brokerage for Clearing by separating those for the proprietary account from those pursuant to the commissions by its customers)
- 3 The Index Futures Clearing Participant which received the notification of the assignment to the Short Position Subject To Brokerage for Clearing pursuant to the provisions of the preceding Paragraph shall notify each Index Futures Non-Clearing Participant pertaining to the relevant Short Position Subject To Brokerage for Clearing of such assigned quantity by separating those for the proprietary account from those pursuant to the commissions by its customers.
- 4 When JSCC makes the assignment of the quantity of the exercised option pursuant to the provisions of Paragraph 1, JSCC shall notify the detail of such assignment to the Designated Market Operator.
- 5 An Index Futures Clearing Participant which has designated a Designated Securities Clearing Participant, when it has received the notification of assignment of the exercised option pursuant to the provisions of Paragraph 2, shall notify such Designated Securities Clearing Participant to such effect without delay.

(Article 73-5-2 Locus of Responsibility in the case where Option Reference Price is not able to be calculated, etc.)

An Index Futures Clearing Participant is not entitled to seek indemnity against JSCC and the Designated Market Operator referred to in Paragraph 5 of Article 73-4 for any damages suffered by it as a result of an inability, delay or error regarding the calculation of, or as a result of a change in, the Option Reference Price.

Section 4 Settlement of JGB Futures Contract.

(Article 73-6 Offsetting-Sale or Offsetting-Purchase)

1 In the case where\*<sup>1</sup> a JGB Futures Clearing Participant has executed Offsetting-Sale or Offsetting-Purchase in respect of JGB Futures Contract for any contract month\*<sup>2</sup>, such JGB Futures Clearing Participant shall notify JSCC, in respect of each contract month and by the cutoff time set by JSCC, of their amount and whether they were Offsetting-Sales or Offsetting-Purchases, by separating those for the proprietary account from those pursuant to the commissions by its customers.

(\*<sup>1</sup> excluding the case stipulated in the following Paragraph)

(\*<sup>2</sup> referring to the contract month set by the Designated Market Operator\*<sup>2-1</sup>; the same applies hereinafter in this Section)

(\*<sup>2-1</sup> referring to the Designated Market Operator operating the Designated Financial Instruments Market prescribed in Item (3) of Paragraph 2 of Article 3; the same applies hereinafter in this Section)

2 In the case where a JGB Futures Clearing Participant has executed Offsetting-Sale in respect of the Long Position Subject To Brokerage for Clearing, or executed Offsetting-Purchase in respect of the Short Position Subject To Brokerage for Clearing, such JGB Futures Clearing Participant shall notify JSCC, in respect of each contract month and each JGB Futures Non-Clearing Participant\*<sup>1</sup> pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing, and by the cutoff time set by JSCC, of their amount and whether they were Offsetting-Sales or Offsetting-Purchases, by separating those for the proprietary account from those pursuant to the commissions by its customers. In such case, a JGB Futures Clearing Participant may cause the JGB Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing make such notification in place of JGB Futures Clearing Participant's own notification.

(\*<sup>1</sup> referring to the entity who has the trading qualification in respect of JGB Futures Contract but does not have JGB Futures Clearing Qualification; the same applies hereinafter)

3 When JSCC has received the notification pursuant to the provisions of Paragraph 1, the notified amount of the Offsetting-Sales/Offsetting-Purchases shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position or the Short Position of the relevant JGB Futures Clearing Participant.

4 When JSCC has received the notification of the Offsetting-Sale in respect of Long Position Subject To Brokerage for Clearing or Offsetting-Purchase in respect of Short Position Subject To Brokerage for Clearing pursuant to the provisions of Paragraph 2, the notified amount of the Offsetting-Sales/Offsetting-Purchases shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position

Subject To Brokerage for Clearing or the Short Position Subject To Brokerage for Clearing of the relevant JGB Futures Non-Clearing Participant.

- 5 When JSCC has received the notification set forth in Paragraph 1 or Paragraph 2, JSCC shall inform the Designated Market Operator of the detail of the Offsetting-Sales and/or the Offsetting-Purchases so notified.

(Article 73-7 Settlement Price)

For each Trading Day<sup>\*1</sup>, JSCC shall set the Settlement Price for JGB Futures Contract in respect of each contract month in accordance with the rules of JSCC.

(\*1 referring to the trading day specified by the Designated Market Operator in respect of JGB Futures Contract; the same applies hereinafter in this Section)

(Article 73-8 Payment/Receipt of Difference between Contract Price and Settlement Price)

If there is any difference between the contract price of a JGB Futures Contract and the Settlement Price as of the Trading Day on which the relevant trading contract was concluded, the JGB Futures Clearing Participant shall pay/receive the money equivalent to such difference to/from JSCC on the day immediately following the day on which the relevant Trading Day ends. In this case, the JGB Futures Clearing Participant making payment shall pay the money by 1:00 P.M., and the JGB Futures Clearing Participant receiving payment shall receive the money at 2:45 P.M. on the day on which the relevant money is to be paid/received.

(Article 73-9 Payment/Receipt of Difference between Settlement Prices)

If there is any difference between the Settlement Price on the given Trading Day and the Settlement Price on the immediately preceding Trading Day, the JGB Futures Clearing Participant shall pay/receive the money equivalent to such difference to/from JSCC on the day immediately following the day on which such given Trading Day ends. In this case, the JGB Futures Clearing Participant making payment shall pay the money by 1:00 P.M., and the JGB Futures Clearing Participant receiving payment shall receive the money at 2:45 P.M. on the day on which the relevant money is to be paid/received.

(Article 73-9-2 Payment/Receipt upon Final Settlement)

Upon the Final Settlement on Mini JGB Futures Contract<sup>\*1\*2</sup>, if there is any difference between the Final Settlement Price<sup>\*3</sup> and the Settlement Price on the Last Trading Day<sup>\*4</sup>, the JGB Futures Clearing Participant shall pay/receive the money equivalent to such difference to/from JSCC on the Final Settlement Day<sup>\*5</sup>. In this case, the JGB Futures Clearing Participant making payment shall pay the money by 1:00 P.M., and the JGB Futures Clearing Participant receiving payment shall receive the money at 2:45 P.M. on the day on which the relevant money is to be paid/received.

- (\*<sup>1</sup> referring to the Mini futures contract in respect of JGB Futures Contract prescribed by the Designated Market Operator; the same applies hereinafter in this Article)
- (\*<sup>2</sup> referring to the final settlement prescribed by the Designated Market Operator)
- (\*<sup>3</sup> referring to the final settlement price set by the Designated Market Operator)
- (\*<sup>4</sup> referring to the last trading day specified by the Designated Market Operator in respect of Mini JGB Futures Contract)
- (\*<sup>5</sup> referring to the final settlement day specified by Designated Market Operator in respect of Mini JGB Futures Contract)

(Article 73-10) Deleted

(Article 73-11 Money and Securities Delivered and Received for Settlement by Physical Delivery and Payment)

The amount of money and the quantity of Japanese Government Bonds to be delivered or received by JGB Futures Clearing Participant for the Settlement by Physical Delivery and Payment\*<sup>1</sup> shall be in accordance with each of the following Items:

- (\*<sup>1</sup> referring to the settlement of Large JGB Futures Contract\*<sup>1-1</sup> by physical delivery and payment prescribed by the Designated Market Operator; the same applies hereinafter)
  - (\*<sup>1-1</sup> referring to the large futures contract in respect of JGB Futures Contract prescribed by the Designated Market Operator; the same applies hereinafter in this Paragraph)
- (1) The quantity of Japanese Government Bonds shall be the difference between the Final Short Position\*<sup>1</sup> and the Final Long Position\*<sup>2</sup> in respect of each classification of tax treatment on the Accrued Interest determined by JSCC pursuant to the provisions of Paragraph 1 of the preceding Article;
  - (\*<sup>1</sup> referring to the total amount of the Short Position in respect of Large JGB Futures Contract for each contract month which has not been offset by Offsetting-Purchase by the Last Trading Day\*<sup>1-1</sup>)
    - (\*<sup>1-1</sup> referring to the last trading day specified by the Designated Market Operator in respect of Large JGB Futures Contract; the same applies hereinafter in this Article)
  - (\*<sup>2</sup> referring to the total amount of the Long Position in respect of Large JGB Futures Contract for each contract month which has not been offset by Offsetting-Sales by the Last Trading Day)
- (2) The amount of money shall be the price\*<sup>1</sup> of the Issues Qualified for Delivery\*<sup>2</sup> for the Settlement by Physical Delivery and Payment in respect of the difference in the amount of Japanese Government Bonds set forth in the preceding Item.
  - (\*<sup>1</sup> referring to the price for the Settlement by Physical Delivery and Payment set by the Designated Market Operator)
  - (\*<sup>2</sup> referring to the issues qualified to be delivered which are specified by the

Designated Market Operator; the same applies hereinafter)

(Article 73-12 Settlement Cutoff Time and Settlement Method of Settlement by Physical Delivery and Payment)

1 The delivery and receipt of money and Japanese Government Bonds in respect of Settlement by Physical Delivery and Payment shall be made between Clearing Participant and JSCC through the DVP Settlement in BOJ-NET JGB Service System in accordance with each of the following Items:

(1) The JGB Futures Clearing Participant delivering Japanese Government Bonds shall, in accordance with the rules of JSCC, deliver it by 1:30 P.M. on the relevant Day of Settlement by Physical Delivery and Payment\*<sup>1</sup> and receive the money;

(\*<sup>1</sup> referring to the day specified by the Designated Market Operator on which the Settlement by Physical Delivery and Payment is to be carried out; the same applies hereinafter)

(2) The JGB Futures Clearing Participant making payment shall, in accordance with the rules of JSCC, pay the money by 2:00 P.M. on the relevant Day of Settlement by Physical Delivery and Payment and receive the Japanese Government Bonds.

2 In carrying out the Settlement by Physical Delivery and Payment pursuant to the provisions of the preceding Paragraph, the JGB Futures Clearing Participant shall make effort to ensure a smooth settlement.

(Article 73-13 Combination of Securities Subject to Settlement)

The securities subject to the Settlement by Physical Delivery and Payment may be combined to constitute a number which is an integral multiple of the trading unit in respect of each Issue Qualified for Delivery at the election of the delivering JGB Futures Clearing Participant.

(Article 73-14 Notification of Securities Subject to Settlement)

The delivering JGB Futures Clearing Participant shall notify JSCC of the issue and quantity of the Japanese Government Bonds to be delivered for the Settlement by Physical Delivery and Payment by the cutoff time set by JSCC.

(Article 73-15 Handling of the Case of Delivery Failure)

1 In respect of the Settlement by Physical Delivery and Payment, if the delivering JGB Futures Clearing Participant has failed to deliver Japanese Government Bonds by the cutoff time prescribed in Item (1) of Paragraph 1 of Article 73-12 on the Day of Settlement by Physical Delivery and Payment\*<sup>1</sup>, such settlement shall be deferred to the immediately following day or later.

(\*<sup>1</sup> hereinafter referred to as “the Case of Delivery Failure” in this Article)

- 2 In the case of the event stipulated in the preceding Paragraph, the JGB Futures Clearing Participant that has made the Delivery Failure shall carry out the Settlement by Physical Delivery and Payment by the fourth day following the Day of Settlement by Physical Delivery and Payment. In such case, the JGB Futures Clearing Participant that has made the Delivery Failure shall notify in advance JSCC of the day on which the Settlement by Physical Delivery and Payment is to be carried out, and such day shall constitute the settlement day for the Case of Delivery Failure.
- 3 In the event that the Settlement by Physical Delivery and Payment between the delivering JGB Futures Clearing Participant and JSCC was deferred pursuant to the provisions of Paragraph 1, the Settlement by Physical Delivery and Payment designated by JSCC among those between JSCC and the receiving JGB Futures Clearing Participants shall be carried out on the settlement day for the Case of Delivery Failure as set forth in the preceding Paragraph.
- 4 With regards to the application of the provisions of Article 73-12 to the Case of Delivery Failure, the words “the Day of Settlement by Physical Delivery and Payment” shall be interpreted to mean “the settlement day for the Case of Delivery Failure”.
- 5 In addition to each of the preceding Paragraphs, matters necessary for handling in the Case of Delivery Failure shall be prescribed in the rules of JSCC.

Section 4-2 Cross Margining

(Article 73-15-2 Cross Margining Request by JGB Futures Clearing Participant)

1 If a JGB Futures Clearing Participant falls on any of the following, it may make request to JSCC to cover its Position in JGB Futures Contracts on an account of a Cross Margining User under the Cross Margining<sup>\*1</sup> in a manner prescribed by JSCC<sup>\*2</sup>:

(\*1 referring to the Cross Margining set forth in Article 2.1.(13)-5 of IRS Business Rules; the same applies hereinafter)

(\*2 hereinafter referred to as the "Cross Margining Request")

(1) When the relevant JGB Futures Clearing Participant is a Cross Margining User, and intends to cover all or a part of its Position in JGB Futures Contracts on its own account under the Cross Margining;

(2) When a Customer of the JGB Futures Clearing Participant or a JGB Futures Non-Clearing Participant which commissions the Brokerage for Clearing of Securities, etc. to the relevant JGB Futures Clearing Participant is a Cross Margining User, and the JGB Futures Clearing Participant has received an application for Cross Margining Request from such Cross Margining User;

(3) When a Customer of a JGB Futures Non-Clearing Participant which commissions the Brokerage for Clearing of Securities, etc. to the relevant JGB Futures Clearing Participant is a Cross Margining User, and the JGB Futures Clearing Participant has received, from the JGB Futures Non-Clearing Participant, an application for Cross Margining Request made through such JGB Futures Non-Clearing Participant.

2 The request set forth in the immediately preceding Paragraph may only be made when the criteria prescribed by JSCC have been satisfied.

(Article 73-15-3 Restrictions on Cross Margining Request)

A JGB Futures Clearing Participant making the Cross Margining Request pursuant to the provisions of the immediately preceding Article<sup>\*1</sup> may not make any Cross Margining Request on behalf of any of the Cross Margining Users listed in each item below on the day that is one or two days preceding the date specified in the relevant item if:

(\*1 hereinafter referred to as the "Cross Margining Requestor")

(1) in respect of a Cross Margining User, its Cross Margining Accepting Party has submitted a notification to change the Cross Margining Requestor or the JGB Futures Non-Clearing Participant to which the Cross Margining User commissions the brokerage of the JGB Futures Contracts<sup>\*1</sup>:

Date on which the change so notified becomes effective:

(\*1 limited to the case where the Cross Margining User is a customer of the JGB Futures Non-Clearing participant)

(2) in respect of a Cross Margining User, its Cross Margining Accepting Party submitted a

notification for discontinuance of using Cross Margining by the relevant Cross Margining User pursuant to the provisions of Article 84-3 of IRS Business Rules:

Day on which the usage of the Cross Margining is discontinued.

(Article 73-15-4 Claims and Obligations related to Cross Margined JGB Futures Cleared Contracts Cease to Exist)

1 If an entity listed in each of the Items below is a Cross Margining User related to the Cross Margined JGB Futures Cleared Contract<sup>\*1</sup> and falls on any of the events set forth in the Items below, the claims and obligations<sup>\*2</sup> related to the Cross Margined JGB Futures Cleared Contracts between the Cross Margining Requestor and JSCC shall cease to exist and have no future effect:

(\*1 referring to the Cross Margined JGB Futures Cleared Contracts set forth in Article 2.1.(13)-6 of IRS Business Rules; the same applies hereinafter)

(\*2 excluding the claims and obligations set forth in Paragraph 4)

(1) Cross Margining Requestor

- a. When the Cross Margining User becomes subject to the measures of suspending assumption of all the obligations taken by JSCC pursuant to the provisions of Paragraph 5 of Article 76, or a 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) against the Cross Margining User:
- b. When the Cross Margining User become subject to the measures of suspension of all or a part of assumption of obligations taken by JSCC, when JSCC has revoked the JGB Futures Clearing Qualification of the Cross Margining User or its Clearing Qualification has been renounced pursuant to the provisions of Article 33, and JSCC has decided to cause other Clearing Participant to settle unsettled Clearing Contracts of such person;
- c. When the Cross Margining User had its Market Transactions of Derivatives suspended by the Designated Market Operator as it is judged to be insolvent or likely to be insolvent;
- d. When a Default in respect of the Cross Margining User has been determined by JSCC pursuant to the provisions of IRS Business Rules;
- e. When, in respect of the Cross Margining User, the Clearing Brokerage Contracts under the Interest Rate Swap Clearing Brokerage Agreement executed pursuant to the provisions of Article 43 of IRS Business Rules terminate on the Early Termination Date pursuant to the provisions of the said Clearing Brokerage Agreement;
- f. When a Default in respect of the Cross Margining Accepting Party for the Cross Margining User has been determined by JSCC pursuant to the provisions of IRS Business Rules, when the Cross Margining Accepting Party for the Cross Margining User falls on any of the events set forth in Article 38.2 of IRS Business Rules or a 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) against the Cross Margining Accepting Party.

(2) Customer of Cross Margining Requestor

- a. In respect of the commission of a brokerage for the JGB Futures Contracts related to the Cross Margined JGB Futures Cleared Contracts, the Cross Margining User has its obligations accelerated as a matter of course pursuant to the provisions of the Agreement for Setting Up Futures/Options Trading Account prescribed by the Designated Market Operator;
- b. When the Cross Margining Request for the Cross Margining User falls on any of the events set forth in sub-items a. to c. of the immediately preceding Item, in which case the references to “the Cross Margining User” in sub-items a. to c. of the said Item shall be replaced with the “Cross Margining Requestor”;
- c. When the Cross Margining Accepting Party for the Cross Margining User falls on the event set forth in sub-item f. of the immediately preceding Item.

(3) JGB Futures Non-Clearing Participant

- a. When the Cross Margining User had its obligations accelerated as a matter of course pursuant to the provisions of the Contract for Commissioning Clearance related to JGB Futures, etc. executed with the Cross Margining Requestor for the commission of the Brokerage for Clearing of Securities, etc. for JGB Futures Contracts related to the Cross Margined JGB Futures Cleared Contracts pursuant to the provisions of Article 39;
- b. When the Cross Margining User becomes subject to the measures of suspension of a commission of the Brokerage for Clearing of Securities, etc. for Market Transactions of Derivatives by the Designated Market Operator as it is judged to be insolvent or likely to be insolvent;
- c. When the Cross Margining Requestor for the Cross Margining User falls on any of the events set forth in sub-items a. to c. of Item (1), in which case, the references to “the Cross Margining User” in sub-items a. to c. of the said Item shall be replaced with “the Cross Margining Requestor”;
- d. When the Cross Margining Accepting Party for the Cross Margining User falls on the event set forth sub-item f of Item (1);

(4) Customer of JGB Futures Non-Clearing Participant

- a. When the Cross Margining Requestor for the Cross Margining User falls on any of the events set forth in sub-items a. to c. of Item (1), in which case, the references to “the Cross Margining User” in sub-items a. to c. of the said Item shall be replaced with “the Cross Margining Requestor”;
- b. When the Cross Margining Accepting Party for the Cross Margining User falls on the event set forth sub-item f of Item (1);

- c. When the Cross Margining User falls on any of the events set forth in sub-item a. of Item (2);
  - d. When the JGB Futures Non-Clearing Participant to which the brokerage for the JGB Futures Contracts are commissioned by the Cross Margining User falls on any of the events set forth in sub-item a. or b. of the immediately preceding Item; in which case, the references to “the Cross Margining User” in sub-item a. and b. of the said Item shall be replaced with “the JGB Futures Non-Clearing Participant to which the brokerage for the JGB Futures Contracts are commissioned by the Cross Margining User.”
- 2 When the claims and obligations cease to exist pursuant to the provisions of the immediately preceding Paragraph, JSCC may cause the Cross Margined JGB Futures Cleared Contracts of the Cross Margining Requestor under the said Paragraph to be settled through offsetting purchases or sale or any other method considered necessary pursuant to the provisions of IRS Business Rules.
  - 3 When JSCC deems it necessary, JSCC may have another Clearing Participant perform the settlement set forth in the immediately preceding Paragraph, in which case, the entrustment agreement shall be deemed to have been concluded between such Clearing Participant and the Cross Margining User under Paragraph 1.
  - 4 The claims and obligations to be excluded from the claims and obligations cease to exist as set forth in Paragraph 1 shall be the claims and obligations related to cash to be paid/received between JSCC and the Cross Margining Requestor under Paragraph 1 in respect of the Cross Margined JGB Futures Cleared Contracts pursuant to the provisions of Article 73-8 or Article 73-9, which have already become due at the time when the Cross Margining Requestor, the Cross Margining Accepting Party, the Cross Margining User or the JGB Futures Non-Clearing Participant to which the Cross Margining User commissions the brokerage for the JGB Futures Contract, as applicable, referred to in Paragraph 1 falls on the event set forth in the relevant Item of Paragraph 1.

Section 5 Settlement of Option Contract on JGB Futures.

(Article 73-16 Offsetting-Sale or Offsetting-Purchase)

1 In the case where\*<sup>1</sup> a JGB Futures Clearing Participant has executed Offsetting-Sale or Offsetting-Purchase in respect of any issue of Option Contract on JGB Futures, such JGB Futures Clearing Participant shall notify JSCC, in respect of each issue and by the cutoff time set by JSCC, of their amount and whether they were Offsetting-Sales or Offsetting-Purchases, by separating those for the proprietary account from those pursuant to the commissions by its customers.

(\*<sup>1</sup> excluding the case stipulated in the following Paragraph)

2 In the case where a JGB Futures Clearing Participant has executed Offsetting-Sale in respect of the Long Position Subject To Brokerage for Clearing, or executed Offsetting-Purchase in respect of the Short Position Subject To Brokerage for Clearing, such JGB Futures Clearing Participant shall notify JSCC, in respect of each issue and each JGB Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing, and by the cutoff time set by JSCC, of their amount and whether they were Offsetting-Sales or Offsetting-Purchases, by separating those for the proprietary account from those pursuant to the commissions by its customers. In such case, a JGB Futures Clearing Participant may cause the JGB Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing make such notification in place of JGB Futures Clearing Participant's own notification.

3 When JSCC has received the notification pursuant to the provisions of Paragraph 1, the notified amount of the Offsetting-Sales/Offsetting-Purchases shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position or the Short Position of the relevant JGB Futures Clearing Participant.

4 When JSCC has received the notification of Offsetting-Sale in respect of Long Position Subject To Brokerage for Clearing or Offsetting-Purchase in respect of Short Position Subject To Brokerage for Clearing pursuant to the provisions of Paragraph 2, the notified amount of the Offsetting-Sales/Offsetting-Purchases shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position Subject To Brokerage for Clearing or the Short Position Subject To Brokerage for Clearing of the relevant JGB Futures Non-Clearing Participant.

5 When JSCC has received the notification set forth in Paragraph 1 or Paragraph 2, JSCC shall inform the Designated Market Operator\*<sup>1</sup> of the detail of the Offsetting-Sales and/or the Offsetting-Purchases so notified.

(\*<sup>1</sup> referring to the Designated Market Operator operating the Designated Financial Instruments Market prescribed in Item (4) of Paragraph 2 of Article 3; the same applies hereinafter in this Section except for Article 73-19-2)

## (Article 73-17 Payment/Receipt of Contract Price)

When a Contract for Clearing in respect of an Option on JGB Futures is formed, the JGB Futures Clearing Participant shall pay/receive the contract price for Option Contract on JGB Futures to/from JSCC on the day immediately following the day on which the Trading Day\*<sup>1</sup> during which the relevant contract was concluded ends. In such case, the JGB Futures Clearing Participant making payment shall pay the money by 1:00 P.M. and the JGB Futures Clearing Participant receiving payment shall receive the money at 2:45 P.M. of the day on which the relevant money is to be paid/received.

(\*<sup>1</sup> referring to the trading day specified by the Designated Market Operator in respect of the Option Contract on JGB Futures; the same applies hereinafter in this Section)

## (Article 73-18 Notification of Exercise of Option)

1 An exercise of the right pertaining to the Long Position\*<sup>1</sup> of Option Contract on JGB Futures shall be done by the JGB Futures Clearing Participant's notifying JSCC of the amount pertaining to the exercise in respect of each issue comprising the Long Position\*<sup>2</sup>, which exists at the end of the Trading Day on which the right of the option is to be exercised, by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC which precedes the expiration time of the Option Contract on JGB Futures specified by the Designated Market Operator.

(\*<sup>1</sup> excluding the Long Position Subject To Brokerage for Clearing)

(\*<sup>2</sup> excluding the Long Position Subject To Brokerage for Clearing)

2 An exercise of the right pertaining to the Long Position\*<sup>1</sup> of Option Contract on JGB Futures shall be done by the JGB Futures Clearing Participant's notifying JSCC of the amount pertaining to the exercise in respect of each issue comprising the Long Position Subject To Brokerage for Clearing which exists at the end of the Trading Day on which the option is to be exercised and each JGB Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing, and by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC which precedes the expiration time of the Option Contract on JGB Futures specified by the Designated Market Operator. In such case, a JGB Futures Clearing Participant may cause the JGB Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing make such notification in place of JGB Futures Clearing Participant's own notification.

(\*<sup>1</sup> limited to the Long Position Subject To Brokerage for Clearing)

3 Regarding the issue which falls under any of the following Items on the expiration date of the Exercise Period\*<sup>1</sup>, the notification of the exercise of the option on that issue shall be deemed to have been made even though the notification of the exercise of the right set forth in the preceding two Paragraphs is not made by the cutoff time set by JSCC under

said Paragraphs; provided, however, that the foregoing shall not apply in the case where the JGB Futures Clearing Participant notified by such cutoff time to the effect that it will not exercise the right in respect of such issue:

(\*<sup>1</sup> referring to the exercise period of Option Contract on JGB Futures specified by the Designated Market Operator; the same applies hereinafter in this Section)

(1) In respect of Put Option on JGB Futures, in the case where the exercise price exceeds the Settlement Price<sup>\*1</sup> of the Underlying Contract Month of JGB Futures<sup>\*2</sup> on the Trading Day which ends on the expiration date of the Exercise Period;

(\*<sup>1</sup> referring to the Settlement Price prescribed in Article 73-7; the same applies hereinafter in this Section)

(\*<sup>2</sup> referring to the contract month of JGB Futures specified by the Designated Market Operator which underlies the Option on JGB Futures; the same applies hereinafter)

(2) In respect of Call Option on JGB Futures, in the case where the exercise price is lower than the Settlement Price of the Underlying Contract Month of JGB Futures on the Trading Day which ends on the expiration date of the Exercise Period.

4 In the case where JSCC deems it inappropriate to regard the notification of the exercise of option as having been made pursuant to the provisions in the main clause of the preceding Paragraph due to a system failure in the Designated Market Operator's trading system or some other unavoidable reasons, such provisions of the main clause in said Paragraph shall not apply.

5 When JSCC has received the notification of the exercise of option prescribed in Paragraph 1 or Paragraph 2<sup>\*1</sup>, JSCC shall inform the detail of the exercise of option so notified to the Designated Market Operator.

(\*<sup>1</sup> including the case where the notification of the exercise of option is deemed to have been received pursuant to the provisions of Paragraph 3)

(Article 73-19 Assignment of Exercised Option)

1 When a JGB Futures Clearing Participant notifies the exercise of option, JSCC shall make the assignment of the quantity of the exercised option in respect of each issue in accordance with the rules of JSCC at the end of the Trading Day ending on the day on which such notification is made.

2 When JSCC makes the assignment of the quantity of the exercised option pursuant to the provisions in the preceding Paragraph, the quantity pertaining to the relevant notification of the exercise of option and to the assignment shall be regarded as the quantity pertaining to the settlement and such quantity shall be subtracted from the amount of the Long Position or the Short Position<sup>\*1</sup> of the relevant JGB Futures Clearing Participant at the end of the Trading Day ending on the day on which such notification is made.

(\*<sup>1</sup> in the case where the exercised/assigned option pertains to the Long Position Subject To Brokerage for Clearing/Short Position Subject To Brokerage for Clearing, referring

to the Long Position Subject To Brokerage for Clearing or the Short Position Subject To Brokerage for Clearing of each JGB Futures Non-Clearing Participant pertaining to such Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing)

3 When JSCC makes the assignment of the exercised option pursuant to the provisions in Paragraph 1, JSCC shall notify the JGB Futures Clearing Participant to whom such assignment is made\*<sup>1</sup> of the quantity of the relevant assignment by separating those for the proprietary account from those pursuant to the commissions by its customers.

(\*<sup>1</sup> in the case where the exercised option is assigned to the Short Position Subject To Brokerage for Clearing, the assigned quantity of each JGB Futures Non-Clearing Participant pertaining to the relevant Short Position Subject To Brokerage for Clearing by separating those for the proprietary account from those pursuant to the commissions by its customers)

4 The JGB Futures Clearing Participant which received the notification of the assignment to the Short Position Subject To Brokerage for Clearing pursuant to the provisions of the preceding Paragraph shall notify each JGB Futures Non-Clearing Participant pertaining to the relevant Short Position Subject To Brokerage for Clearing of such assigned quantity by separating those for the proprietary account from those pursuant to the commissions by its customers.

5 When JSCC makes the assignment of the quantity of the exercised option pursuant to the provisions of Paragraph 1, JSCC shall notify the detail of such assignment to the Designated Market Operator.

(Article 73-19-2 Locus of Responsibility in the case where Settlement Price of Contract Month Contract of JGB Futures subject to Exercise is not able to be calculated, etc.)

A JGB Futures Clearing Participant is not entitled to seek indemnity against JSCC and the Designated Market Operator which operates the Designated Financial Instruments Market referred to in Item (3) of Paragraph 2 of Article 3 for any damages suffered by it as a result of an inability, delay or error regarding the calculation of, or as a result of a change in, the Settlement Price of the Contract Month Contract of JGB Futures subject to exercise.

Section 6 Settlement of Index Futures Contract.

(Article 73-20 Offsetting-Sale or Offsetting-Purchase)

1 In the case where<sup>\*1</sup> an Index Futures Clearing Participant has executed Offsetting-Sale or Offsetting-Purchase in respect of Index Futures Contract for any contract month<sup>\*2</sup>, such Index Futures Clearing Participant shall notify JSCC, in respect of each contract month and by the cutoff time set by JSCC, of their amount and whether they were Offsetting-Sales or Offsetting-Purchases, by separating those for the proprietary account from those based on the commission by its customers.

(\*1 excluding the case stipulated in the following Paragraph)

(\*2 referring to the contract month set by the Designated Market Operator<sup>\*2-1</sup>; the same applies hereinafter in this Section)

(\*2-1 referring to the Designated Market Operator operating the Designated Financial Instruments Market prescribed in Item (5) of Paragraph 2 of Article 3; the same applies hereinafter in this Section)

2 In the case where an Index Futures Clearing Participant has executed Offsetting-Sale in respect of the Long Position Subject To Brokerage for Clearing, or executed Offsetting-Purchase in respect of the Short Position Subject To Brokerage for Clearing, such Index Futures Clearing Participant shall notify JSCC, in respect of each contract month and each Index Futures Non-Clearing Participant<sup>\*1</sup> pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing, and by the cutoff time set by JSCC, of their amount and whether they were Offsetting-Sales or Offsetting-Purchases, by separating those for the proprietary account from those pursuant to the commissions by its customers. In such case, an Index Futures Clearing Participant may cause the Index Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing make such notification in place of Index Futures Clearing Participant's own notification.

(\*1 referring to the entity who has the trading qualification in respect of Index Futures Contract but does not have Index Futures Clearing Qualification; the same applies hereinafter in this Section)

3 When JSCC has received the notification pursuant to the provisions of Paragraph 1, the notified amount of the Offsetting-Sales/Offsetting-Purchases shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position or the Short Position of the relevant Index Futures Clearing Participant.

4 When JSCC has received the notification of the Offsetting-Sale in respect of Long Position Subject To Brokerage for Clearing or Offsetting-Purchase in respect of Short Position Subject To Brokerage for Clearing pursuant to the provisions of Paragraph 2, the notified amount of the Offsetting-Sales/Offsetting-Purchases shall be regarded as the amount

pertaining to the settlement and such amount shall be subtracted from the Long Position Subject To Brokerage for Clearing or the Short Position Subject To Brokerage for Clearing of the relevant Index Futures Non-Clearing Participant.

5 When JSCC has received the notification set forth in Paragraph 1 or Paragraph 2, JSCC shall inform the Designated Market Operator of the detail of the Offsetting-Sales and/or the Offsetting-Purchases so notified.

(Article 73-21 Settlement Price)

For each Trading Day<sup>\*1</sup>, JSCC shall set the Settlement Price for Index Futures Contract in respect of each contract month in accordance with the rules of JSCC.

(\*1 referring to the trading day specified by the Designated Market Operator in respect of Index Futures Contract; the same applies hereinafter in this Section)

(Article 73-22 Payment/Receipt of Difference between Contract Price and Settlement Price)

If there is any difference between the contract price<sup>\*1</sup> of an Index Futures Contract and the Settlement Price as of the Trading Day on which the relevant trading contract was concluded, the Index Futures Clearing Participant shall pay/receive the money equivalent to such difference to/from JSCC on the day immediately following the day on which the relevant Trading Day ends. In this case, the Index Futures Clearing Participant making payment shall pay the money by 1:00 P.M., and the Index Futures Clearing Participant receiving payment shall receive the money at 2:45 P.M. on the day on which the relevant money is to be paid/received.

(\*1 referring to the contract price index or contract price set by the Designated Market Operator; the same applies hereinafter)

(Article 73-23 Payment/Receipt of Difference between Settlement Prices)

If there is any difference between the Settlement Price on the given Trading Day and the Settlement Price on the day immediately preceding Trading Day, the Index Futures Clearing Participant shall pay/receive the money equivalent to such difference to/from JSCC on the day immediately following the day on which such given Trading Day ends. In this a case, the Index Futures Clearing Participant making payment shall pay the money by 1:00 P.M. and the Index Futures Clearing Participant receiving payment shall receive the money at 2:45 P.M. on the day on which the relevant money is to be paid/received.

(Article 73-24 Payment/Receipt upon Final Settlement)

Upon the Final Settlement on Index Futures Contract<sup>\*1</sup>, if there is any difference between the Final Settlement Price <sup>\*2</sup> and the Settlement Price on the Last Trading Day<sup>\*3</sup>, the Index Futures Clearing Participant shall pay/receive the money equivalent to such difference to/from JSCC on the Final Settlement Day<sup>\*4</sup>. In this case, the Index Futures Clearing

Participant making payment shall pay the money by 1:00 P.M., and the Index Futures Clearing Participant receiving payment shall receive the money at 2:45 P.M. on the day on which the relevant money is to be paid/received.

(\*<sup>1</sup> referring to the final settlement in respect of Index Futures Contract prescribed by the Designated Market Operator)

(\*<sup>2</sup> referring to the final settlement price set by the Designated Market Operator; the same applies hereinafter in the following Article)

(\*<sup>3</sup> referring to the last trading day specified by the Designated Market Operator in respect of Index Futures Contract)

(\*<sup>4</sup> referring to the final settlement day specified by the Designated Market Operator in respect of Index Futures Contract)

(Article 73-25 Locus of Responsibility in the case where Settlement Price is not able to be calculated, etc.)

Index Futures Clearing Participant is not entitled to seek indemnity against JSCC, Designated Market Operator and/or the entity calculating index\*<sup>1</sup> for any damages suffered by it as a result of an inability, delay or error regarding the calculation or distribution of index or as a result of a change in the Final Settlement Price.

(\*<sup>1</sup> including the entity to whom the calculation of index is deputed by that former entity)

Section 7 Settlement of Index Option Contract.

(Article 73-26 Offsetting-Sale or Offsetting-Purchase)

1 In the case where\*<sup>1</sup> an Index Futures Clearing Participant has executed Offsetting-Sale or Offsetting-Purchase in respect of any issue of Index Option Contract, such Index Futures Clearing Participant shall notify JSCC of their amount and whether they were Offsetting-Sales or Offsetting-Purchases in respect of each issue by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC.

(\*<sup>1</sup> excluding the case stipulated in the following Paragraph)

2 In the case where an Index Futures Clearing Participant has executed Offsetting-Sale in respect of the Long Position Subject To Brokerage for Clearing, or executed Offsetting-Purchase in respect of the Short Position Subject To Brokerage for Clearing, such Index Futures Clearing Participant shall notify JSCC, in respect of each issue and each Index Futures Non-Clearing Participant\*<sup>1</sup> pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing, and by the cutoff time set by JSCC, of their amount and whether they were Offsetting-Sales or Offsetting-Purchases, by separating those for the proprietary account from those pursuant to the commissions by its customers. In such case, an Index Futures Clearing Participant may cause the Index Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing or Short Position Subject To Brokerage for Clearing make such notification in place of Index Futures Clearing Participant's own notification.

(\*<sup>1</sup> referring to the entity which holds trading qualification relating to Index Option Contract but does not hold Index Futures Clearing Qualification; the same applies hereinafter in this Section)

3 When JSCC has received the notification pursuant to the provisions of Paragraph 1, the notified amount of the Offsetting-Sales/Offsetting-Purchases shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position or the Short Position of the relevant Index Futures Clearing Participant.

4 When JSCC has received the notification of Offsetting-Sale in respect of Long Position Subject To Brokerage for Clearing or Offsetting-Purchase in respect of Short Position Subject To Brokerage for Clearing pursuant to the provisions of Paragraph 2, the notified amount of the Offsetting-Sales/Offsetting-Purchases shall be regarded as the amount pertaining to the settlement and such amount shall be subtracted from the Long Position Subject To Brokerage for Clearing or the Short Position Subject To Brokerage for Clearing of the relevant Index Futures Non-Clearing Participant.

5 When JSCC has received the notification set forth in Paragraph 1 or Paragraph 2, JSCC shall inform the Designated Market Operator\*<sup>1</sup> of the detail of the Offsetting-Sales and/or

the Offsetting-Purchases so notified.

(\*1 referring to the Designated Market Operator operating the Designated Financial Instruments Market prescribed in Item (6) of Paragraph 2 of Article 3; the same applies hereinafter in this Section)

(Article 73-27 Payment/Receipt of Contract Price)

When a Contract for Clearing in respect of Index Option Contract is formed, the Index Futures Clearing Participant shall pay/receive the contract price for Index Option Contract to/from JSCC on the day immediately following the day on which the Trading Day\*1 during which the relevant contract is concluded ends. In such case, an Index Futures Clearing Participant making payment shall pay the money by 1:00 P.M., and an Index Futures Clearing Participant receiving payment shall receive the money at 2:45 P.M. of the day on which the relevant money is to be paid/received.

(\*1 referring to the trading day specified by the Designated Market Operator in respect of the Index Option Contract; the same applies hereinafter in this Section)

(Article 73-28 Notification of Exercise of Option)

1 An exercise of the right pertaining to the Long Position\*1 of Index Option Contract shall be done by the Index Futures Clearing Participant's notifying JSCC of the amount pertaining to the exercise in respect of each issue by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC which precedes the expiration time of the Index Option Contract specified by the Designated Market Operator

(\*1 excluding the Long Position Subject To Brokerage for Clearing)

2 An exercise of the right pertaining to the Long Position\*1 of Index Option Contract shall be done by the Index Futures Clearing Participant's notifying JSCC of the amount pertaining to the exercise in respect of each issue and each Index Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing, and by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC which precedes the expiration time of the Index Option Contract specified by the Designated Market Operator. In such case, an Index Futures Clearing Participant may cause the Index Futures Non-Clearing Participant pertaining to the relevant Long Position Subject To Brokerage for Clearing make such notification in place of Index Futures Clearing Participant's own notification.

(\*1 limited to the Long Position Subject To Brokerage for Clearing)

3 Regarding the issue which falls under any of the following Items on the Exercise Date\*1, the Index Futures Clearing Participant cannot make the notification of the exercise of the right set forth in the preceding two Paragraphs:

(\*1 referring to the exercise date specified by the Designated Market Operator in respect of

Index Option Contract; the same applies hereinafter in this Section)

(1) In respect of Index Put Option, in the case where the exercise price is at the Option Settlement Price\*<sup>1</sup> or lower;

(\*<sup>1</sup> referring to the Option Settlement Price set by the Designated Market Operator; the same applies hereinafter in this Section)

(2) In respect of Index Call Option, in the case where the exercise price is at the Option Settlement Price or higher.

4 Regarding the issue which falls under any of the following Items on the Exercise Date, the notification of the exercise of the option on that issue shall be deemed to have been made even though the notification of the exercise of the right is not made by the cutoff time on the relevant day set by JSCC under Paragraph 1 or Paragraph 2; provided, however, that the foregoing shall not apply in the case where the Index Futures Clearing Participant notified by such cutoff time to the effect that it will not exercise the right in respect of such issue:

(1) In respect of Index Put Option, in the case where the exercise price exceeds the Option Settlement Price;

(2) In respect of Index Call Option, in the case where the exercise price is lower than the Option Settlement Price.

5 When JSCC has received the notification of the exercise of option prescribed in Paragraph 1 or Paragraph 2\*<sup>1</sup>, JSCC shall inform the detail of the exercise of option so notified to the Designated Market Operator.

(\*<sup>1</sup> including the case where the notification of the exercise of option is deemed to have been received pursuant to the provisions of the preceding Paragraph)

(Article 73-29 Assignment of Exercised Option)

1 When an Index Futures Clearing Participant notifies the exercise of option, JSCC shall make the assignment of the quantity of the exercised option in respect of each issue in accordance with the rules of JSCC.

2 When JSCC makes the assignment of the quantity of the exercised option pursuant to the provisions of the preceding Paragraph, JSCC shall notify the Index Futures Clearing Participant to whom such assignment is made\*<sup>1</sup>, of the quantity of the relevant assignment by separating those for the proprietary account from those pursuant to the commissions by its customers.

(\*<sup>1</sup> in the case where the exercised option is assigned to the Short Position Subject To Brokerage for Clearing, the assigned quantity of each Index Futures Non-Clearing Participant pertaining to the relevant Short Position Subject To Brokerage for Clearing by separating those for the proprietary account from those pursuant to the commissions by its customers)

3 The Index Futures Clearing Participant which received the notification of the assignment to the Short Position Subject To Brokerage for Clearing pursuant to the provisions of the

preceding Paragraph shall notify each Index Futures Non-Clearing Participant pertaining to the relevant Short Position Subject To Brokerage for Clearing of the assigned quantity by separating those for the proprietary account from those pursuant to the commissions by its customers.

- 4 When JSCC makes the assignment of the quantity of the exercised option pursuant to the provisions of Paragraph 1, JSCC shall notify the detail of such assignment to the Designated Market Operator.

(Article 73-30 Payment/Receipt on the Settlement of Exercised Option)

When the right pertaining to Index Option Contract is exercised, the Index Futures Clearing Participant shall pay/receive the money equivalent to the difference between its exercise price and the Option Settlement Price to/from JSCC on the day following the day on which the relevant right is exercised. In such case, an Index Futures Clearing Participant making payment shall pay the money by 1:00 P.M., and an Index Futures Clearing Participant receiving payment shall receive the money at 2:45 P.M. on the day on which the relevant money to be paid/received.

(Article 73-31 Locus of Responsibility in the case where Option Settlement Price is not able to be calculated, etc.)

Index Futures Clearing Participant is not entitled to seek indemnity against JSCC, Designated Market Operator and/or the entity calculating index\*<sup>1</sup> for any damages suffered by it as a result of an inability, delay or error regarding the calculation or distribution of index or as a result of a change in the Option Settlement Price.

(\*<sup>1</sup> including the entity to whom the calculation of index is deputed by that former entity)

Section 8 Settlement of Exchange FX Contract.

(Article 73-32 Notification of Position)

1 An FX Clearing Participant shall notify JSCC of the number of Long Positions<sup>\*1</sup> and the number of Short Positions<sup>\*2</sup> relating to an Exchange FX Contract in respect of each Subject Financial Index<sup>\*3</sup>, and by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC. Provided, however, when the FX Clearing Participant has executed an Offsetting-Sale or Offsetting-Purchase, it shall notify the number after deducting the number subject to such Offsetting-Sale or Offsetting-Purchase as regarding them as the number relating to settlement.

(\*1 excluding Long Position Subject To Brokerage for Clearing)

(\*2 excluding Short Position Subject To Brokerage for Clearing)

(\*3 referring to the subject financial index set by the Designated Market Operator<sup>\*3-1</sup>; the same applies hereinafter in this Section)

(\*3-1 referring to the Designated Market Operator operating the Designated Financial Instruments Market prescribed in Item (11) of Paragraph 2 of Article 3; the same applies hereinafter in this Section)

2 An FX Clearing Participant shall notify JSCC of the number of Long Positions Subject To Brokerage for Clearing and the number of Short Positions Subject To Brokerage for Clearing relating to an Exchange FX Contract in respect of each Subject Financial Index and in respect of each FX Non-Clearing Participant<sup>\*1</sup> relating to such Long Position Subject To Brokerage for Clearing or such Short Position Subject To Brokerage for Clearing, and by separating those for the proprietary account from those pursuant to the commissions by its customers, by the cutoff time set by JSCC. Provided, however, when an Offsetting-Sale or Offsetting-Purchase has been executed, such Clearing Participant shall notify the number after deducting the number subject to such Offsetting-Sale or Offsetting-Purchase as regarding them as the number relating to settlement. In such case, the FX Clearing Participant may cause the FX Non-Clearing Participant relating to such Long Position Subject To Brokerage for Clearing or such Short Position Subject To Brokerage for Clearing to file such notification in place of the FX Clearing Participant.

(\*1 referring to the entity which has the trading qualification in respect of Exchange FX Contract but does not have FX Clearing Qualification; the same applies hereinafter)

3 The FX Clearing Participant shall calculate and record the number subject to the notification under the preceding two Paragraphs immediately after the trading session of each Trading Day<sup>\*1</sup>.

(\*1 referring to the Trading Day designated by the Designated Market Operator in respect of an Exchange FX Contract; the same applies hereinafter in this Section)

(Article 73-33 Settlement Price and Swap Point Standard Price)

JSCC shall, pursuant to its rules, prescribe the Settlement Price and swap point standard price of each Trading Day in respect of each Subject Financial Index of Exchange FX Contract after the close of session on such Trading Day.

(Article 73-34 Payment/Receipt of Initial Mark to the Market Result)

If there is any difference in an Exchange FX Contract between the contract price and the Settlement Price on the Trading Day on which such Exchange FX Contract is executed in respect of a Position for which a rollover<sup>\*1</sup> is executed at the close of trading session of that Trading Day and which has arisen from the contract formed during such session, the FX Clearing Participant shall pay/receive money equivalent to such difference to/from JSCC on the settlement day<sup>\*2</sup> relating to such Trading Day.

(\*1 referring to the rollover prescribed by the Designated Market Operator; the same applies hereinafter)

(\*2 referring to the day following the closing day of the Trading Day<sup>\*2-1</sup>)

(\*2-1 if it falls on a Non-business Day, it shall be the immediately following business day; the same applies hereinafter in this Section)

(Article 73-35 Payment /Receipt of Net Difference to Previous Day)

If there is any difference in an Exchange FX Contract between the Settlement Price on the Trading Day on which a rollover is executed and the Settlement Price on the Trading Day immediately preceding such Trading Day in respect of a Position for which such rollover is operated at the close of trading session of such Trading Day and which has arisen from the contract formed prior to such session, the FX Clearing Participant shall pay/receive money equivalent to such difference to/from JSCC on the settlement day relating to such Trading Day.

(Article 73-35-2 Payment/Receipt of Final Settlement Balance)

In the Final Settlement of Exchange FX Contracts<sup>\*1</sup>, FX Clearing Participants shall pay/receive money described in below listed items to/from JSCC on the Final Settlement Date<sup>\*2</sup>:

(\*1 referring to the Final Settlement of Exchange FX Contracts prescribed by the Designated Market Operator)

(\*2 referring to the Final Settlement Date of Exchange FX Contracts prescribed by the Designated Market Operator)

- (1) In respect of a Position existing on the Last Trading Day<sup>\*1</sup> which has arisen from the contract formed during the session on such Last Trading Day, the amount equal to the difference, if any, between the contract price of the relevant contract and the Final Settlement Price<sup>\*2</sup> on the Trading Day on which such contract is executed; and

(2) In respect of a Position existing on the Last Trading Day which has arisen from the contract formed prior to the opening of the session on the Last Trading Day, the amount equal to the difference, if any, between the Final Settlement Price and the Settlement Price on the previous Trading Day.

(\*<sup>1</sup> referring to the Last Trading Day prescribed by the Designated Market Operator in respect of Exchange FX Contracts; the same applies hereinafter in this Article)

(\*<sup>2</sup> referring to the Final Settlement Price prescribed by the Designated Market Operator; the same applies hereinafter in this Article)

(Article 73-36 Delivery or Receipt of Swap Points)

When a rollover of Position is executed in an Exchange FX Contract at the close of trading session on any Trading Day, FX Clearing Participant shall deliver/receive to/from JSCC the amount of money equivalent to the amount obtained by multiplying the swap point standard price of each Subject Financial Index by the difference between the number of the Long Positions subject to such rollover and the number of the Short Positions subject to such rollover\*<sup>1</sup>, on the settlement day relating to such Trading Day.

(\*<sup>1</sup> hereinafter referred to as "Swap Points")

(Article 73-37 Payment /Receipt of Settlement Balance)

When an Offsetting-Sale or Offsetting-Purchase is executed in an Exchange FX Contract, FX Clearing Participant shall pay/receive to/from JSCC the sum of money set forth in the following Items according to the classification of the Position set forth in such Items on the settlement day relating to the Trading Day on which such Offsetting-Sale or Offsetting-Purchase is executed:

(1) For Position relating to the contract formed on the Trading Day on which such Offsetting-Sale or Offsetting-Purchase is executed:

The amount of money equivalent to the difference between the contract price of the Position and the contract price of such Offsetting-Sale or Offsetting-Purchase transaction

(2) For Position relating to the contract formed on or prior to the Trading Day immediately preceding the Trading Day on which such Offsetting-Sale or Offsetting-Purchase transaction is executed:

The amount of money equivalent to the difference between the Settlement Price on such immediately preceding Trading Day and the contract price related to such Offsetting-Sale or Offsetting-Purchase.

(Article 73-38 Net Difference to Previous Day relating to Non-Yen Financial Index)

The amount of money equivalent to the difference prescribed in each of Article 73-34 through Article 73-37 in respect of an Exchange FX Contract relating to the Non-Yen Financial Index\*<sup>1</sup> shall be computed in accordance with the rules prescribed by JSCC.

(\*1 referring to the non-yen financial index prescribed by the Designated Market Operator)

(Article 73-39 Locus of Responsibility in the case where Settlement Price, etc. is not able to be Calculated, etc.)

An FX Clearing Participant is not entitled to seek indemnity against JSCC or the Designated Market Operator for any damages suffered by it as a result of an inability, delay or error regarding the calculation or distribution of, or change, etc. in, Settlement Price or swap point standard price.

Section 9 Miscellaneous Clauses.

(Article 73-40 Amount of Money to be Paid/Received for Futures and Options, and Its Method)

- 1 The amount of money to be paid/received pursuant to the provisions of Article 73-3, Article 73-8, Article 73-9, Article 73-9-2, Article 73-17, Article 73-22 through Article 73-24, Article 73-27 and Article 73-30 shall be the difference between the total amount to be paid and the total amount to be received by the same Clearing Participant.
- 2 The payment/receipt of money set forth in the preceding Paragraph shall be made between the Clearing Participant and JSCC. The payment/receipt method in this case shall be in accordance with the rules of JSCC.

(Article 73-41 Amount of Money to be Paid/Received for Futures and Options, and its Method)

- 1 The amount of money to be paid/received pursuant to the provisions of Article 73-34 through Article 73-38 shall be the difference between the total amount to be paid and the total amount to be received by the same FX Clearing Participant for each purpose of deposit made by such FX Clearing Participant\*<sup>1</sup>.

(\*<sup>1</sup> referring to the classification of the Margins prescribed in Paragraph 1 of Article 19 of the Rules on Margins, etc. for Exchange FX Contracts; the same applies hereinafter)

- 2 In addition to those set forth in the preceding Paragraph, matters necessary to be prescribed in relation to the amount of money to be paid/received pursuant to the provisions of Article 73-34 through Article 73-38 shall be prescribed by JSCC.

(Article 73-42 Application of the Rules in the Event of the Give-up)

With respect to the Futures and Option Contracts which are newly formed as a result of the completion of the Give-up, the Clearing Participant which is also the Trading Participant Executing Clearance\*<sup>1</sup> is deemed to have concluded the relevant Futures and Option Contracts, and the provisions of this Chapter and the following Chapter shall apply accordingly.

(\*<sup>1</sup> in the case where the relevant Trading Participant Executing Clearance is a Non-Clearing Participant, referring to its Designated Clearing Participant)

Chapter 5-2 Succession of Margin and Unsettled Contract, etc.

(Article 73-43 Succession of Margin and Unsettled Contract, etc.)

- 1 The matters with respect to the Margin relating to the Futures and Option Contracts and the handling of Unsettled Contracts, etc. in the event of the suspension of assumption of obligation due to default, etc. in the Securities and Similar Contract Clearing Business performed by JSCC shall be prescribed in the Rules on Margins, etc. for Futures and Option Contracts.
- 2 The matters with respect to the Margin relating to the Exchange FX Contracts and the handling of Unsettled Contracts, etc. in the event of the suspension of assumption of obligation due to default, etc. in the Securities and Similar Contract Clearing Business performed by JSCC shall be prescribed in the Rules on Margins, etc. for Exchange FX Contracts.

Chapter 5-3 Position Transfers

## (Article 73-44 Position Transfers)

1 In addition to the cases stipulated separately in these Business Rules, a Clearing Participant may, after obtaining JSCC's approval, transfer its Unsettled Contracts relating to Futures and Option Contracts<sup>\*1</sup> to other Clearing Participants.

(\*1 excluding those Unsettled Contracts which are contract month contracts<sup>\*1-1</sup> remaining after the Last Trading Day<sup>\*1-2</sup> of such contract month contract whose Last Trading Day has arrived and Cross Margined JGB Futures Cleared Contracts; the same applies hereinafter in this Chapter)

(\*1-1 referring to the contract month contracts prescribed by the Designated Market Operator; the same applies hereinafter in this Chapter)

(\*1-2 referring to the last trading day specified by the Designated Market Operator<sup>\*1-2-1</sup> with respect to Futures and Option Contracts)

(\*1-2-1 referring to the Designated Market Operator which operates the Designated Financial Instruments Market prescribed in Item (2) through Item (6) of Paragraph 2 of Article 3; the same applies hereinafter in this Chapter)

2 When a Clearing Participant intends to transfer its Unsettled Contracts pursuant to the provisions of the preceding Paragraph<sup>\*1</sup>, it shall submit an application to JSCC by the cutoff time prescribed by JSCC in accordance with the rules prescribed by JSCC.

(\*1 hereinafter referred to as the "Position Transfer" in this Chapter)

3 The Position Transfer shall be completed at the time prescribed by JSCC.

4 When implementing the Position Transfer relating to the Contracts Subject to Clearing listed in Item (3) and Item (5) of Paragraph 2 of Article 3, the Settlement Price of each contract month contract on the Trading Day<sup>\*1</sup> which ends on the day immediately preceding the day on which the relevant Position Transfer is to be implemented shall be used as the contract price pertaining to such Position Transfer.

(\*1 referring to the trading day prescribed by the Designated Market Operator with respect to Futures and Option Contracts; the same applies hereinafter)

5 In the event that an Agency Clearing Participant received notification from a Non-Clearing Participant concerning the Position Transfer in accordance with the rules prescribed by the Designated Market Operator, such Agency Clearing Participant shall submit to JSCC an application setting forth the content thereof by the cutoff time prescribed by JSCC and in accordance with the rules prescribed by JSCC, and obtain JSCC's approval.

## (Article 73-45 Suspension of Position Transfers)

In the event that JSCC determines it difficult to permit transfers of Positions on a continuing basis due to failure of operation of the system for transfers of Positions or other reason, JSCC may suspend transfer of Positions.

Chapter 6 Clearing Deposit

(Article 74 Clearing Deposit)

The initial margin prescribed in Article 15-2, the clearing fund prescribed in Article 16, the Security Money for Facilitating DVP Settlement prescribed in Article 52, and the Margin prescribed in Article 70, all of which JSCC shall receive from Clearing Participants in order to ensure the performance of their obligations, shall be the Clearing Deposit prescribed in Article 156-11 of the Act.

(Article 75 Management of Clearing Deposit)

JSCC shall hold the Clearing Deposit set forth in the preceding Article by segregating it from its proprietary assets through such methods as utilizing a separate account, and manage it on a book in respect of each Clearing Participant by demarcating each of the initial margin, Securities, Futures and Option Clearing Fund, FX Clearing Fund, Security Money for Facilitating DVP Settlement and the Margin.

Chapter 7 Measures, etc. in case of Settlement Default by Clearing Participant

## Section 1 General Rules

(Article 76 Measures in case of Settlement Default)

- 1 When a Clearing Participant does not perform the settlement of Contracts for Clearing or JSCC deems there is a real possibility that a Clearing Participant does not perform the settlement of Contracts for Clearing, JSCC shall implement the measures, to the extent and for the period that JSCC deems necessary, to suspend the assumption of the obligations under the Contracts Subject to Clearing to which such Clearing Participant\*<sup>1</sup> is a party and to suspend such Clearing Participant from receiving all or part of the securities and money which were to be received from JSCC.  
(\*<sup>1</sup> hereinafter referred to as the "Default Clearing Participant")
- 2 In the event that the Default Clearing Participant does not perform the settlement of Contracts for Clearing, JSCC may cause other Clearing Participants to sell or buy the securities or to perform similar acts which are necessary for the handling of the relevant default.
- 3 JSCC may apply the securities and money, the receipt of which was suspended pursuant to the provisions of Paragraph 1, to satisfy the obligations pertaining to the default of the settlement of Contracts for Clearing by the Default Clearing Participant.
- 4 The Default Clearing Participant which has been subjected to the measure of suspending assumption of obligations pursuant to the provisions of Paragraph 1 may, after obtaining JSCC's approval, transfer its unsettled Contracts for Clearing pertaining to the Contracts Subject to Clearing constituting the obligations which became subjected to such measure to other Clearing Participants during the duration of such measure; provided, however, that the foregoing shall not apply in the case where the measure of suspending assumption was imposed against all the obligations under the Contracts Subject to Clearing to which the Default Clearing Participant is a party pursuant to the provisions of the following Paragraph.
- 5 In the event that JSCC has taken the measure set forth in Paragraph 1, if the Default Clearing Participant became insolvent, or if JSCC deems that there is a real possibility for the Default Clearing Participant to become insolvent or it is especially necessary to do so, notwithstanding the provisions of said Paragraph, JSCC may impose the measure of suspending assumption of all the obligations under the Contracts Subject to Clearing to which the Default Clearing Participant is a party and of suspending the Default Clearing Participant from receiving securities and money which were to be received from JSCC, until the cause thereof ceases to exist.
- 6 The provisions of Paragraph 3 shall apply *mutatis mutandis* to the securities and money the receiving of which was suspended pursuant to the provisions of the preceding Paragraph.

- 7 In the event that JSCC has suspended assumption of all the obligations under the Contracts Subject to Clearing to which the Default Clearing Participant is a party pursuant to the provisions of Paragraph 5, JSCC may cause the Default Clearing Participant's unsettled Contracts for Clearing to be transferred to other Clearing Participants and cause other arrangements that JSCC deems necessary to be made.
- 8 Only to the extent necessary to make the arrangements set forth in the immediately preceding Paragraph, JSCC may assume, from the Default Clearing Participant which has been subjected to the measure of suspending assumption of all the obligations pursuant to the provisions of Paragraph 5, the obligations under the relevant Default Clearing Participant's Contracts Subject to Clearing.
- 9 When JSCC deems it necessary to do so, JSCC may cause other Clearing Participants to make the arrangements set forth in Paragraph 7.
- 10 In the case of Paragraph 2 and the preceding Paragraph, an entrustment agreement shall be deemed to have been formed between such other Clearing Participant and the Clearing Participant subject to the suspension of assumption of obligations.

(Article 77 Notification of Imposition of Measure to Suspend Assumption of Obligation)

In the event that JSCC has imposed the measure of suspending assumption of the obligations under the Contracts Subject to Clearing to which a Clearing Participant is a party pursuant to the provisions of Paragraph 1 or Paragraph 5 of the immediately preceding Article, JSCC shall notify to that effect to all the other Clearing Participants having Clearing Qualification of the same category as that of the relevant Clearing Participant's one.

(Article 78 Compensation for Loss Caused by Default)

- 1 In the event that JSCC has suffered loss<sup>\*1</sup> as a result of the nonperformance of the settlement of the Contracts for Clearing by the Default Clearing Participant, each of the following deposit shall be applied to compensate such loss according to the purpose thereof:

(\*1 including the loss JSCC incurred in the course of the handling of such default<sup>\*1-1</sup>)

(\*1-1 including the handling which takes place when JSCC deems that there is a real possibility of default)

- (1) Margin for buying/selling transaction deposited with JSCC by the Default Clearing Participant;
- (2) Security Money for Facilitating DVP Settlement deposited with JSCC by the Default Clearing Participant;
- (3) Margin relating to the Futures and Option Contracts and Margin relating to the Exchange FX Contracts for the proprietary account deposited with JSCC by the Default Clearing Participant;

(4) Margin relating to the Futures and Option Contracts and Margin relating to the Exchange FX Contracts in respect of which the Default Clearing Participant has a claim for refund\*<sup>1</sup>

(\*<sup>1</sup> excluding the Margin set forth in the immediately preceding Item);

(5) Initial margin deposited with JSCC by the Defaulting Clearing Participant;

(6) Securities, Futures and Option Clearing Fund and FX Clearing Fund deposited with JSCC by the Default Clearing Participant.

2 In addition to the sources set forth in the immediately preceding Paragraph, JSCC shall be compensated for its loss from the following sources:

(1) Regarding the deposit set forth in each Item of the immediately preceding Paragraph, if there is any residual amount after being used for its original purpose, such residual amount;

(2) Other deposits that the Default Clearing Participant has deposited with JSCC\*<sup>1</sup>; and (\*<sup>1</sup> if JSCC has used it for its original purpose, the remaining amount)

(3) Excess collateral\*<sup>1</sup> that the Default Clearing Participant has deposited with JSCC in connection with any Other Clearing Business\*<sup>2</sup>

(\*<sup>1</sup> referring to the margin, clearing fund or other collateral\*<sup>1-1</sup> which the Default Clearing Participant has deposited with JSCC in connection with any Other Clearing Business\*<sup>2</sup>, that remains after the application to the payment of the obligations of the Default Clearing Participant in accordance with the provisions of the business rules of such Other Clearing Business)

(\*<sup>1-1</sup> limited only to those of which the Default Clearing Participant has the claim for refund)

(\*<sup>2</sup> referring to the Financial Instruments Obligation Assumption Business conducted by JSCC and businesses pertaining thereto, other than the Securities and Similar Contract Clearing Business; the same applies hereinafter)

3 If any part of the loss in respect of each category of Clearing Qualification remains uncompensated after the operation of the provisions of the preceding two Paragraphs, and if the relevant Default Clearing Participant is a trading participant or a member of a Financial Instruments Exchange, the participant bond\*<sup>1</sup> which the relevant Default Clearing Participant has deposited with the Financial Instruments Exchange where it has the trading qualification or is a member shall be applied to compensate for the remaining loss.

(\*<sup>1</sup> if the customers or the Financial Instruments Exchange has exercised the preferential right to receive payment in respect of the bond, its balance)

4 If any part of the loss in respect of each category of Clearing Qualification remains uncompensated after the operation of the provisions of the preceding three Paragraphs, and if there is any money to be received as a result of a third party guarantee against loss or other money or other assets with the particular purpose to compensate the relevant loss\*<sup>1</sup>, JSCC shall be compensated with such money and assets.

(\*<sup>1</sup> excluding the charge set forth in Paragraph 7 and the following Article)

- 5 If any part of the loss in respect of each category of Clearing Qualification remains uncompensated after the operation of the provisions of Paragraph 1 through Paragraph 4, JSCC shall be compensated from the Securities and Similar Contracts Settlement Guarantee Reserve maintained by JSSC.
- 6 The amount of the Securities and Similar Contracts Settlement Guarantee Reserve maintained by JSSC referred to in the preceding Paragraph shall be the amount reserved or otherwise set aside in the manners prescribed by JSCC.
- 7 The matters necessary for the loss compensation prescribed in each preceding Paragraph shall be set by JSCC on each applicable occasion.

(Article 78-2 Compensation for Loss with Clearing Fund of Non-Default Clearing Participants)

- 1 Regarding the loss<sup>\*1</sup> related to Securities Clearing Qualification, JGB Futures Clearing Qualification, Index Futures Clearing Qualification or FX Clearing Qualification which JSCC has incurred as a result of the nonperformance by a Default Clearing Participant of the settlement of Contracts for Clearing existing between JSCC and such Default Clearing Participant, in the case where any portion of such loss still remains uncompensated even after the operation of the provisions of the preceding Article, such loss shall be compensated for with the amount of the Securities, Futures and Option Clearing Fund or the FX Clearing Fund, as the case may be according to the Clearing Qualification relating to such loss, deposited by each Clearing Participant other than the Default Clearing Participant<sup>\*2</sup> with JSCC as of the day of the occurrence of the relevant default<sup>\*3</sup>, which represents the required amount of Securities, Futures and Option Clearing Fund in the case of the Securities, Futures and Option Clearing Fund and the FX Clearing Qualification in the case of the FX Clearing Fund, respectively, in accordance with the manners prescribed by JSCC. In this case, the compensation for loss with the amount equivalent to the required amount of clearing fund related to one type of Clearing Qualification shall only apply to such loss related to the relevant Clearing Qualification.

(\*<sup>1</sup> including the loss JSCC has incurred in performing the handlings pursuant to the provisions of Article 76; the same applies hereinafter in this Article and the following Article)

(\*<sup>2</sup> hereinafter referred to as the "Clearing Participant on Default Day" in this Chapter)

(\*<sup>3</sup> including the day on which JSCC deems there is a real possibility of default; hereinafter referred to as the "Default Day" in this Chapter)

- 2 In the case where JSCC deems it difficult to calculate the uncompensated loss as referred to in the preceding Paragraph for a considerable period, JSCC may regard the amount which is provisionally estimated and calculated by JSCC as such uncompensated loss, and compensate for such amount in the manners prescribed in the preceding Paragraph. In such case, when such uncompensated loss is firmly determined, the difference between

such firmly determined amount and the provisional amount calculated by JSCC shall be paid/received between the Clearing Participants on Default Day and JSCC.

- 3 When JSCC has made collection from the Default Clearing Participant against its claim pertaining to the loss which was compensated for pursuant to Paragraph 1, JSCC shall repay such collected amount to the Clearing Participants on Default Day by prorating it among them.

(Article 79 Special Clearing Charge)

- 1 Regarding the loss which JSCC has incurred as a result of the nonperformance by a Default Clearing Participant of the settlement of Contracts for Clearing with JSCC, in the case where any portion of such loss still remains uncompensated even after the operation of the provisions of the preceding Article, all Clearing Participants on Default Day shall pay Special Clearing Charge in accordance with the rules of JSCC. In such case, JSCC shall apply such Special Clearing Charge for compensating for such uncompensated loss.
- 2 The amount of the Special Clearing Charge set forth in the preceding Paragraph shall be, for each category of the Clearing Qualification, the amount equal to the uncompensated loss stipulated in said Paragraph prorated in accordance with the rules of JSCC among the Clearing Participants on Default Day.
- 3 If a Clearing Participant does not pay the Special Clearing Charge set forth in Paragraph 1, such Clearing Participant shall be regarded as having failed to perform the settlement of Contracts for Clearing on the Default Day with respect to such unpaid amount, and the provisions from Article 76 to this Article shall be applied accordingly.
- 4 The provisions of Paragraph 2 and Paragraph 3 of the preceding Article shall apply *mutatis mutandis* to the case where JSCC deems it difficult to calculate the amount of loss which remains uncompensated as referred to in Paragraph 1 for a considerable period. In such case, "(JSCC may) compensate for such amount in the manners prescribed in the preceding Paragraph" in the first sentence of Paragraph 2 of the preceding Article shall be deemed to be "(JSCC may) demand payment of the Special Clearing Charge on the day set by JSCC".

## Section 2 Cross Margining Special Clearing Charge

(Article 79-2 Cross Margining Special Clearing Charge)

1 When claims and obligations related to the Cross Margined JGB Futures Cleared Contracts between the Cross Margining Requestor and JSCC cease to exist pursuant to the provisions of Article 73-15-4, and if there remains any loss incurred by JSCC in respect of the claims and obligations which come into existence between the Cross Margining Accepting Party and JSCC pursuant to the provisions of Article 84-5 of IRS Business Rules which cannot be covered by the use of the Fourth Tier Special Clearing Charge<sup>\*1</sup>, the Cross Margining Requestor shall pay the Cross Margining Special Clearing Charge in the amount equal to such remaining loss in a manner prescribed by JSCC. In this case, JSCC will cover such loss by such Cross Margining Special Clearing Charge.

(\*1 referring to the Fourth Tier Special Clearing Charge set forth in Article 106.1 of IRS Business Rules; the same applies in Paragraph 2 below)

2 When the Cross Margining Requestor described in the immediately preceding Paragraph fails to pay the Cross Margining Special Clearing Charge set forth in the said Paragraph, the Cross Margining Requestor shall be deemed to have failed its performance of the settlement of the Clearing Contracts on the day on which it has determined that such loss cannot be covered fully by the Fourth Tier Special Clearing Charge, and the provisions of Article 76 to the preceding Article shall apply.

3 When JSCC deems it difficult to calculate the Cross Margining Special Clearing Charge set forth in Paragraph 1 for a considerable period of time, JSCC may deem the amount tentatively calculated by JSCC as an expected amount of such remaining loss and request the payment of the Cross Margining Special Clearing Charge in such amount on the date designated by JSCC. In this case, when the final amount of such remaining loss set forth in Paragraph 1 has been determined, the difference between such final amount of the remaining loss and the amount tentatively calculated by JSCC shall be settled between the Cross Margining Requestor under Paragraph 1 and JSCC.

4 When JSCC can collect its claims related to the loss recovered pursuant to the provisions of Paragraph 1 from the Cross Margining Accepting Party set forth in Paragraph 1, JSCC shall refund the amount so collected to the Cross Margining Requestor under Paragraph 1 pursuant to the provisions of IRS Business Rules.

Chapter 8 Miscellaneous Provisions

## (Article 79-3 Adjustment of Position under Security Option Contract)

- 1 In the case of a stock split in respect of the underlying security of Security Option Contract where one stock is to be split into an integral multiple of one stock; in the case of an allotment of stocks without compensation where the stock of the same class as that of the underlying security in number equal to an integral multiple of one stock of the underlying security are allotted per each stock of the underlying security; in the case of a change in the trading unit; or in other cases where JSCC deems it necessary to do so, the Position under the Security Option Contract pertaining to the securities option in respect of such underlying security shall be adjusted in accordance with the rules of JSCC.
- 2 The provisions of the preceding Paragraph shall apply *mutatis mutandis* to the underlying security\*<sup>1</sup> of Security Option Contract.

(\*<sup>1</sup> excluding stocks)

## (Article 80 Extraordinary Change of Settlement Cutoff Time)

When JSCC deems it necessary, JSCC may extraordinarily change the Settlement Cutoff Time\*<sup>1</sup> in respect of Contracts for Clearing between JSCC and a Clearing Participant. In such case, JSCC shall notify the Clearing Participant to that effect in advance.

(\*<sup>1</sup> including the cutoff time prescribed in Paragraph 1 and Paragraph 2 of Article 51)

## (Article 81 Deferment of Settlement Date Due to System Failure, etc.)

- 1 In the case where JSCC deems it impossible or difficult to carry out the settlement of Contracts for Clearing by using the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, due to an occurrence of a system failure to those systems or some other unavoidable reasons, JSCC may defer all or part of the settlement to the following day or later. In such case, JSCC shall notify Clearing Participants to that effect in advance.
- 2 In the case where JSCC deems it impossible or difficult to make the notification of an exercise of options in respect of Security Option Contract, Option Contract on JGB Futures and/or Index Option Contract due to an occurrence of a system failure to the systems set up by JSCC or other institutions which are necessary to make the notification of the exercise of those options or due to some other unavoidable reasons, JSCC may change the Exercise Period or the Exercise Date, or suspend the exercise itself with respect to all or part of those options. In such case, JSCC shall notify Clearing Participants to that effect in advance.
- 3 The matters necessary for the deferment of the settlement day, the change of the Exercise Period or the Exercise Date, and the suspension of exercise itself prescribed in the preceding two Paragraphs shall be set by JSCC on each applicable occasion.

(Article 82 Extraordinary Measures in Cases of Natural Disaster, etc.)

- 1 If circumstances lead up to the event that the settlement of Contracts for Clearing is deemed to be impossible or extraordinarily difficult due to a natural disaster, economic upheaval, a shortage of goods or other unavoidable reasons, JSCC may set new conditions of the settlement for the relevant contract through a resolution adopted at the meeting of board of directors of JSCC.
- 2 When JSCC has set the new conditions of the settlement pursuant to the preceding Paragraph, the Clearing Participants shall comply with them.
- 3 In the case of the event stipulated in Paragraph 1 and when JSCC acknowledges urgent need therefor, JSCC may set new conditions of the settlement without the resolution of board of directors' meeting.

(Article 83 Cancellation, etc. of Claims and Obligations under When-Issued Transaction)

- 1 Regarding the Contracts Subject to Clearing on the When-Issued Transaction, in the case where the conditions of the issuance of the stock are changed, or where the stock is not issued or recognized as not to be issued, by the settlement day, JSCC may take the measures regarding changing the securities eligible for settlement or the settlement day, or canceling the claims and obligations under the relevant When-Issued Transaction.
- 2 The provisions of the preceding Paragraph shall apply *mutatis mutandis* to preferred equity capital contribution securities and investment trust beneficiary securities.

(Article 83-2 Change, etc. of Securities Subject to Settlement under JGB Futures Contract)

In the case where JSCC deems it difficult to carry out the Settlement by Physical Delivery and Payment in respect of JGB Futures Contract taking into account such factors as the situation of the Positions, JSCC may take measures regarding changing the securities subject to the settlement of the Large JGB Futures Contract\*<sup>1</sup> between JSCC and the Clearing Participant or changing the Day of Settlement by Physical Delivery and Payment.

(\*<sup>1</sup>referring to the Large JGB Futures Contract set forth in of Article 73-11)

(Article 83-3 Transfer of Unsettled Contracts in Case of Corporate Divestiture or Transfer of Business)

- 1 In the case where a Clearing Participant transfers its business to another Clearing Participant, or causes another Clearing Participant to succeed to its business by way of a divestiture, and when the former Clearing Participant does not lose its Clearing Qualification simultaneously with the succession or transfer of such business, that Clearing Participant may, by obtaining JSCC's approval, transfer to such another Clearing Participant its Unsettled Contracts of Futures and Option Contracts or Exchange FX Contracts pertaining to the relevant business being succeeded to or transferred.

2 In the event stipulated in the preceding Paragraph, if the Unsettled Contracts to be transferred are pursuant to the commissions by its customers, such former Clearing Participant shall obtain the consent of the relevant customers on the transfer of the Unsettled Contracts.

3 In the event stipulated in Paragraph 1, when an Agency Clearing Participant is to take over the Non-Clearing Participant's Unsettled Contract which are pursuant to the commissions of the Brokerage for Clearing of Securities, etc., such Agency Clearing Participant shall obtain the consent of the relevant Non-Clearing Participant on the transfer of the relevant Unsettled Contracts.

(Article 83-4 Application of Excess Collateral relating to Securities and Similar Contract Clearing Business to Other Clearing Business)

JSCC may apply the excess collateral deposited by a Default Clearing Participant in relation to the Securities and Similar Contract Clearing Business\*<sup>1</sup> to the payment of any other obligations owed by such Default Clearing Participant to JSCC in accordance with the provisions of the business rules of the Other Clearing Businesses as applicable.

(\*<sup>1</sup> referring to the Margin, initial margin, clearing fund or other collateral of which the Default Clearing Participant has the right to claim refund from JSCC in connection with the Securities and Similar Contract Clearing Business, that remains after the application to the payment of the obligations of the Default Clearing Participant in accordance with the provisions of these Business Rules\*<sup>1-1</sup>)

(\*<sup>1-1</sup> including any rules and regulations promulgated hereunder)

(Article 84 Payment of Fees by Designated Market Operator)

Designated Market Operator shall pay JSCC the fees prescribed by JSCC's rules in accordance with such rules.

(Article 84-2 Prohibition of Transfer, Etc. of Claims)

A Clearing Participant may not transfer or commit to transfer to a third person, or furnish as collateral, any and all claims prescribed in these Business Rules\*<sup>1</sup> unless otherwise provided herein.

(\*<sup>1</sup>including any rules and regulations promulgated hereunder; the same applies hereinafter in this Article)

(Article 85 Entrustment of Operations)

1 JSCC may entrust the administrative work relating to the Securities and Similar Contract Clearing Business specified by JSCC to the entity designated by JSCC.

2 In addition to these Business Rules, Clearing Participants shall comply with the rules in respect of the administrative work described in the preceding Paragraph which are set by

the entity designated pursuant to said Paragraph and are approved by JSCC.

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

(Article 86 Stipulation of Necessary Matters Regarding Financial Instruments Obligation Assumption Business and Related Businesses)

In addition to the matters prescribed in these Business Rules, when JSCC deems it necessary regarding the Securities and Similar Contract Clearing Business, JSCC may stipulate rules concerning required operations.

(Article 87 Incidental Business)

JSCC shall conduct the businesses incidental to the Financial Instruments Obligation Assumption Business and Related Businesses\*<sup>1</sup>.

(\*<sup>1</sup> limited only to those prescribed in Article 2)

(Article 88 Authority to Make Amendment)

Amendments to these Business Rules shall be made by resolutions adopted at the meetings of the board of directors; provided, however, that the foregoing shall not apply when the amendments are not material.

Supplementary Provisions

1 These Business Rules shall come into effect on January 14, 2003; provided, however, that the provisions of Section 1 and Section 2\*<sup>1</sup> of Chapter 1 and Article 16 shall come into effect on January 10, 2003, and the provisions of Article 66 shall come into effect on January 8, 2003.

(\*<sup>1</sup> excluding Article 10)

2 In the case where the entity applying for the Principal Clearing Qualification pursuant to the provisions of Paragraph 1 of Article 6 on January 10, 2003 has already been a trading participant or a member of a Designated Market Operator, the examination on the matters stipulated in Item 2 of Paragraph 1 of Article 7 shall not be performed; provided, however, that such entity is required not to have fallen under any of the Items of Paragraph 3 of Article 29.

3 In the case where the Clearing Participant which obtained the approval set forth in Paragraph 3 of Article 6 on January 10, 2003 is an Securities Clearing Participant of the Tokyo Stock Exchange, Inc.\*<sup>1</sup>, and when the total value of the clearing fund, which is comprised of cash and securities in lieu of cash valued at their substituting values\*<sup>2</sup>, deposited by such Clearing Participant with TSE as of such day pursuant to TSE's Clearing/Settlement Regulations is at least equal to the required amount of the clearing fund for securities contracts prescribed in Article 16, such Clearing Participant shall be regarded as having deposited the clearing fund prescribed in Paragraph 1 of Article 8 for the purpose of the provisions of said Paragraph.

(\*<sup>1</sup> hereinafter referred to as "TSE")

(\*<sup>2</sup> deducting the amount with respect to which the relevant Clearing Participant completed the procedure set by TSE to make it the clearing fund for Futures and Option Contracts prescribed in the business rules of TSE as of January 14, 2003\*<sup>2-1</sup>)

(\*<sup>2-1</sup> hereinafter referred to as the "Effective Date")

4 Among the Contracts Subject to Clearing prescribed in Paragraph 2 of Article 3 which were formed prior to the Effective Date, in respect of those which have not been settled as of the Effective Date\*<sup>1</sup>, JSCC shall assume the obligations pursuant to the provisions of Paragraph 1 of Article 46 on the Effective Date unless otherwise prescribed in the following Paragraph.

(\*<sup>1</sup> limited to those to which a Clearing Participant of JSCC is a party as of the Effective Date)

5 In the case where the Designated Market Operator was assuming the obligation under Contracts Subject to Clearing as of the day immediately preceding the Effective Date\*<sup>1</sup>, JSCC shall assume the obligations between such Designated Market Operator and the Clearing Participant\*<sup>2</sup>. In such case, the provisions of Paragraph 1 of Article 46 shall apply *mutatis mutandis* to the assumption of such obligations, and the provisions of Item 1 of

Paragraph 1 of Article 54 shall apply *mutatis mutandis* to the claims and obligations between JSCC and the Designated Market Operator pertaining to the assumption of such obligations.

(\*1 including the case where the Designated Market Operator is a party to a transaction of buying/selling the underlying stock of Share Option Transaction resulting from its exercise)

(\*2 limited to the Clearing Participants which are JSCC's Clearing Participants as of the Effective Date)

6 In the case where JSCC's Clearing Participant which was TSE's Securities Clearing Participant on the day immediately preceding the Effective Date was making the application stipulated in Item 4 of Paragraph 1 of Article 39 of TSE's Clearing/Settlement Regulations before the Effective Date, such Clearing Participant shall be regarded as having been making the application stipulated in Item (4) of Paragraph 1 of Article 53.

7 With respect to the application of the provisions of Article 40 to the case where the Contract for Commissioning Clearance prescribed in Article 39 is to be concluded on the Effective Date, the words "in advance" in Article 40 shall be deemed to be "without delay".

8 The amount of money to be paid/received between a Clearing Participant and JSCC in respect of When-Issued Transaction on the Effective Date shall be as follows in addition to the amount prescribed in Article 67:

(i) With respect to the When-Issued Transactions concluded in the securities markets operated by TSE or Sapporo Securities Exchange Securities Membership Corporation on or before January 7, 2003, the amount equivalent to the difference between the Settlement Prices on January 7 of the same year set by those market operators and the Settlement Price set by JSCC on January 8 of the same year;

(ii) With respect to the When-Issued Transactions concluded in the securities markets operated by Osaka Stock Exchange Co., Ltd., Fukuoka Stock Exchange Securities Membership Corporation or Japan Securities Dealers Association on or before January 7, 2003, the amount equivalent to the difference between their contract price and the Settlement Price set by JSCC on January 8 of the same year;

(iii) With respect to the When-Issued Transactions concluded in the securities markets operated by Nagoya Stock Exchange, Inc. on or before January 7, 2003, the amount equivalent to the difference between the Settlement Price on the day of the conclusion of the relevant trading and the Settlement Price set by JSCC on January 8 of the same year.

9 Regarding the application of the provisions in Paragraph 2 of Article 79, until March 31, 2003, the phrase in said Paragraph "the shareholder's capital\*2 as of the last day of the fiscal year\*3 of JSCC which immediately precedes the fiscal year in which the Default Day falls\*4" shall be deemed to be "the shareholders' capital as of the last of September, 2002"; and the phrase "the total sum of the capital, the capital reserve, and the earned surplus\*5"

as of the last day of the Preceding Fiscal Year; and the total value of its own stocks\*<sup>6</sup> to be acquired which was resolved on at the regular general meeting of shareholders pertaining to the Preceding Fiscal Year” shall be deemed to be “the amount obtained by adding the undivided profit of the current fiscal year to or by subtracting the undisposed deficit of the current fiscal year from, the total amount of the capital, the capital reserve, and the earned surplus as of the last day of September, 2002”.

(\*<sup>2</sup> referring to the balance after the disposition of the surplus fund pursuant to the resolution of the regular general meeting of shareholders pertaining to the Preceding Fiscal Year)

(\*<sup>3</sup> being referred to as the “Preceding Fiscal Year” in this Paragraph)

(\*<sup>4</sup> being referred to as the “Current Fiscal Year” in this Paragraph)

(\*<sup>5</sup> referring to the balance after the disposition of the surplus fund pursuant to the resolution of the regular general meeting of shareholders pertaining to the Preceding Fiscal Year)

(\*<sup>6</sup> limited to the total value of its own stocks to be acquired pursuant to the provisions of Paragraph 3 of Article 210 of the Commercial Code)

10 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)\*<sup>1</sup> shall be treated as Convertible Bonds or corporate bonds with the stock acquisition rights that are not Convertible Bonds, respectively, and these Business Rules shall be applied to them accordingly.

(\*<sup>1</sup> hereinafter referred to as the “Law Amending Commercial Code, Etc.” in this Supplementary Provisions)

11 The certificate of subscription right, which is issued in conjunction with the corporate bonds with stock acquisition rights set forth in the immediately preceding Paragraph pursuant to Paragraph 1 of Article 341-13 of the Commercial Code as it existed prior to the amendment made under the Law Amending Commercial Code, Etc., shall be regarded as a certificate of stock acquisition rights, and these Business Rules shall be applied to it accordingly.

12 In addition to the provisions of Paragraph 2 through Paragraph 9, matters regarding the handling of the assumption of obligations as at the time these Business Rules come into effect and other necessary matters shall be set by JSCC on all such occasions.

#### Supplementary Provisions

These revised Business Rules shall come into effect on April 1, 2003.

#### Supplementary Provisions

1 These revised Business Rules shall come into effect on February 2, 2004.

2 The entity who applied for Clearing Qualification by January 16, 2004 in accordance with the rules of JSCC and obtained the approval from JSCC shall be regarded as being granted Share Option Clearing Qualification, JGB Futures Clearing Qualification or Stock Price Index Futures Clearing Qualification pursuant to the provisions of Paragraph 1 of Article 9 on the day on which these revised Business Rules come into effect\*<sup>1</sup>.

(\*<sup>1</sup> hereinafter referred to as the “Effective Date”)

3 For the approval set forth in the preceding Paragraph, JSCC shall perform the examination in conformity with the provisions of Article 7.

4 Notwithstanding the provisions of the immediately preceding Paragraph, in the case where JSCC is to grant the approval set forth in Paragraph 2 to the entity who is actually a Share Option Clearing Participant, a JGB Futures Clearing Participant or a Stock Index Futures Clearing Participant of Tokyo Stock Exchange, Inc.\*<sup>1</sup> as of the day immediately preceding the Effective Day, for Share Option Clearing Qualification, JGB Futures Clearing Qualification or Stock Price Index Futures Clearing Qualification\*<sup>2</sup>, respectively, the examination of the matters prescribed in Item 2 of Paragraph 1 of Article 7 shall not be performed; provided, however, that it is required that such entity has not fallen under any of the Items of Paragraph 3 of Article 29.

(\*<sup>1</sup> hereinafter referred to as “TSE”)

(\*<sup>2</sup> limited to Principal Clearing Qualification with respect to these qualifications)

5 The entity who obtained the approval set forth in Paragraph 2 shall deposit the clearing fund and complete other necessary procedures prescribed by JSCC by the day immediately preceding the Effective Date; provided, however, that in the case where the entity who is a Share Option Clearing Participant, JGB Futures Clearing Participant or Stock Index Futures Clearing Participant of TSE has obtained the approval for the respective Share Option Clearing Qualification, JGB Futures Clearing Qualification or Stock Price Index Futures Clearing Qualification, and when the total value of the clearing fund for Futures and Option Contract— which is comprised of cash and securities in lieu of cash valued at their substituting values, deposited with TSE pursuant to TSE’s business rules as of the day immediately preceding the Effective Date by the relevant entity who is a Share Option Clearing Participant, JGB Futures Clearing Participant or Stock Price Index Futures Clearing Participant —is at least equal to the required amount of the clearing fund for Futures and Option Contract prescribed by TSE, the relevant Share Option Clearing Participant, JGB Futures Clearing Participant or Stock Price Index Futures Clearing Participant shall be regarded as having deposited the clearing fund.

6 In the case where TSE has assumed the obligations under the Contracts Subject to Clearing prescribed in Item (3) through Item (8) of Paragraph 2 of Article 3 as of the day immediately preceding the Effective Date\*<sup>1</sup>, JSCC shall assume the obligations existing between TSE and the Clearing Participant\*<sup>2</sup> on the Effective Date. In such case, the provisions of Paragraph 1 of Article 46 shall apply *mutatis mutandis* to the assumption of

such obligations, and the provisions of Item (1) of Paragraph 1 of Article 54 shall apply *mutatis mutandis* to the claims and obligations between JSCC and TSE in respect of the relevant assumption of the obligations.

(\*<sup>1</sup> including the case where TSE is a party to the JGB Futures Contract resulting from the exercise of the option under Option Contract on JGB Futures)

(\*<sup>2</sup> limited to the Clearing Participant which became JSCC's Share Option Clearing Participant, JGB Futures Clearing Participant or Stock Price Index Futures Clearing Participant on the Effective Date)

7 With respect to the application of the provisions of Article 40 to the case where the entity who obtained the approval set forth in Paragraph 2 is to conclude the Contract for Commissioning Clearance prescribed in Article 39 on the Effective Date, the word "in advance" in said Paragraph shall be deemed to be "without delay".

8 In addition to the provisions of Paragraph 2 through the preceding Paragraph, matters regarding the handling of the assumption of obligations at the time these Business Rules come into effect and other necessary matters shall be set by JSCC on all such occasions.

Supplementary Provisions

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

\*The date set by JSCC is December 13, 2004.

Supplementary Provisions

1 These revised Business Rules shall come into effect on January 1, 2005.

2 The bankruptcy adjudicated on or after January 1, 2005 as a result of the petition filed on or before December 31, 2004 shall be regarded as a decision to commence bankruptcy procedure.

Supplementary Provisions

These revised Business Rules shall come into effect on June 10, 2005.

Supplementary Provisions

These revised Business Rules shall come into effect on November 7, 2005.

Supplementary Provisions

1 These revised Business Rules shall come into effect on January 10, 2006.

2 With respect to the bonds\*<sup>1</sup> which are actually listed on the designated securities market at the time when these revised Business Rules come into effect, such revised provisions shall apply to settlement in respect of which the date of settlement is on or after the day designated by JSCC as the date for JASDEC to commence handling of such bonds in its book-entry transfer business.

(\*<sup>1</sup> excluding Japanese Government Bonds, corporate bonds with stock acquisition rights, etc., and Exchangeable Corporate Bonds)

Supplementary Provisions

These revised Business Rules shall come into effect on January 30, 2006.

Supplementary Provisions

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

2 Notwithstanding the provisions of the preceding Paragraph, the provisions heretofore in force shall remain applicable to the issues designated by each Designated Market Operator until the day set by that Designated Market Operator in respect of each such issue.

Supplementary Provisions

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

2 Notwithstanding the provisions of the preceding Paragraph, with respect to the stock acquisition right for which the provisions then in force still remain applicable pursuant to the provisions of Paragraph 2 of Article 98 of the Laws Concerning the Coordination, etc. of Associated Laws in Connection with the Enforcement of the Companies Act. (Law No. 87 of 2005), the provisions heretofore in force shall remain applicable.

3 The Convertible Bond which is stipulated in Item 6 of Paragraph 2 of Article 47 of these Business Rules as it existed prior to this revision, and in respect of which the resolution for its offering was passed prior to the day on which these revised Business Rules came into effect, shall be regarded as the Convertible Bond stipulated in the same Article of the Business Rules as it exists after this revision, and the revised provisions shall apply accordingly.

4 Notwithstanding the provisions of Paragraph 1, with respect to the application of Paragraph 2 of Article 79 in the case where the Default Day falls on or before March 31, 2007, the provisions heretofore in force shall remain applicable.

Supplementary Provisions

These revised Business Rules shall come into effect on January 1, 2007.

Supplementary Provisions

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

Supplementary Provisions

These revised Business Rules shall come into effect on November 1, 2007.

Supplementary Provisions

These revised Business Rules shall come into effect on December 10, 2007.

Supplementary Provisions

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

Supplementary Provisions

These revised Business Rules shall come into effect on April 1, 2008.

Supplementary Provisions

These revised Business Rules shall come into effect on May 7, 2008.

Supplementary Provisions

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

Supplementary Provisions

These revised Business Rules shall come into effect on July 7, 2008; provided, however, that the revised provisions of Paragraph 2 of Article 16 and Paragraph 1 of Article 70 shall apply from the deposit which is deposited with JSCC on or after the day on which these revised provisions come into effect.

Supplementary Provisions

These revised Business Rules shall come into effect on August 25, 2008.

Supplementary Provisions

These revised Business Rules shall come into effect on December 26, 2008.

Supplementary Provisions

1 These revised Business Rules shall come into effect on January 1, 2009.

2 The provisions heretofore in force shall remain applicable to the settlement in respect of the stock acquisition right securities which are actually listed in the Designated Financial Instruments Market on the day on which these revised provisions come into effect.

Supplementary Provisions

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

Supplementary Provisions

1 These revised Business Rules shall come into effect on November 16, 2009.

2 The provisions heretofore in force shall remain applicable to the settlement in respect of the Contracts for Clearing which JSCC had assumed obligation until November 15, 2009.

Supplementary Provisions

These revised Business Rules shall come into effect on July 16, 2010.

Supplementary Provisions

These revised Business Rules shall come into effect on April 1, 2011.

Supplementary Provisions

These revised Business Rules shall come into effect on July 19, 2011.

Supplementary Provisions

These revised Business Rules shall come into effect on March 31, 2012.

Supplementary Provisions

These revised Business Rules shall come into effect on December 1, 2012.

Supplementary Provisions

- 1 These revised Business Rules shall come into effect on March 31, 2013.
- 2 During the period from March 31, 2013 to March 30, 2014, in applying (c) of B) of Item (2) of Paragraph 1 of Article 7, Item (5) of Paragraph 3 of Article 29 and Item (4) of Paragraph 4 of Article 29, all as amended, the words "4.5 percent" in a. of (c) of B) of Item (2) of Paragraph 1 of Article 7 and A) of Item (4) of Paragraph 4 of Article 29 shall be interpreted to mean "3.5 percent," the words "6 percent" in b. of (c) of B) of Item (2) of Paragraph 1 of Article 7 and B) of Item 4 of Paragraph 4 of Article 29 shall be interpreted to mean "4.5 percent", the words "2.25 percent" in A) of Item (5) of Paragraph 3 of Article 29 shall be interpreted to mean "1.75 percent", and the words "3 percent" in B) of Item (5) of Paragraph 3 of Article 29 shall be interpreted to mean "2.25 percent".
- 3 During the period from March 31, 2014 to March 30, 2015, in applying (c) of B) of Item (2) of Paragraph 1 of Article 7, Item (5) of Paragraph 3 of Article 29 and Item (4) of Paragraph 4 of Article 29, all as amended, the words "4.5 percent" in a. of (c) of B) of Item (2) of Paragraph 1 of Article 7 and A) of Item (4) of Paragraph 4 of Article 29 shall be interpreted to mean "4 percent," the words "6 percent" in b. of (c) of B) of Item (2) of Paragraph 1 of Article 7 and B) of Item 4 of Paragraph 4 of Article 29 shall be interpreted to mean "5.5 percent", the words "2.25 percent" in A) of Item (5) of Paragraph 3 of Article 29 shall be interpreted to mean "2 percent", and the words "3 percent" in B) of Item (5) of Paragraph 3 of Article 29 shall be interpreted to mean "2.75 percent".

Supplementary Provisions

- 1 These revised Business Rules shall come into effect on July 16, 2013.
- 2 When the entity who is a clearing participant in futures and options or an FX clearing participant of Osaka Securities Exchange Co., Ltd.\*<sup>1</sup> and who applies for Clearing Qualification by June 28, 2013 in accordance with the rules of JSCC obtains the approval from JSCC through the examination conducted by applying *mutatis mutandisi* the provisions of Article 7, such entity shall be regarded as being granted Index Futures Clearing Qualification or FX Clearing Qualification pursuant to the provisions of Paragraph 1 of Article 9 on the day on which these revised Business Rules come into effect\*<sup>2</sup>. In such case, if such entity does not fall under any one of the categories set forth in Items of Paragraph 3 of Article 29, and remains to be a clearing participant in futures and options or

an FX clearing participant of OSE as of the day immediately preceding the Effective Date, the examination of the matters prescribed in Item (2) of Paragraph 1 of Article 7 shall not be performed.

(\*1 hereinafter referred to as "OSE")

(\*2 hereinafter referred to as the "Effective Date")

- 3 The entity who obtained the approval set forth in the preceding Paragraph in relation to the Index Futures Clearing Qualification shall deposit the clearing fund and complete other necessary procedures prescribed by JSCC by the day immediately preceding the Effective Date; provided, however, that in the case where the entity who is a clearing participant in futures and options of OSE has obtained the approval for the Index Futures Clearing Qualification, and when the total value of the clearing deposit — which is comprised of cash and securities in lieu of cash valued at their substituting prices, — deposited by such entity with OSE pursuant to OSE's clearing rules as of the day immediately preceding the Effective Date, plus the amount of clearing fund deposited by it with JSCC as of the day immediately preceding the Effective Date is equal to or more than the required amount of the clearing fund prescribed by JSCC, such entity shall be regarded as having deposited the clearing fund.
- 4 The entity who obtained the approval set forth in Paragraph 2 in relation to the FX Clearing Qualification shall deposit the clearing fund and complete other necessary procedures prescribed by JSCC by the day immediately preceding the Effective Date; provided, however, that in the case where the entity who is an FX clearing participant of OSE has obtained the approval for the FX Clearing Qualification, and when the total value of the clearing deposit — which is comprised of cash and securities in lieu of cash valued at their substituting prices—, deposited by such entity with OSE pursuant to OSE's clearing rules as of the day immediately preceding the Effective Date is equal to or more than the total sum of required amount of FX clearing deposit prescribed by OSE, such entity shall be regarded as having deposited the clearing fund.
- 5 The entity who holds Principal Clearing Qualification or Agency Clearing Qualification for Individual Option Clearing Qualification of JSCC as of the day immediately preceding the Effective Date\*1 shall be deemed to have been granted Principal Clearing Qualification or Agency Clearing Qualification, respectively, for Index Futures Clearing Qualification as of the Effective Date in accordance with the provisions of Paragraph 1 of Article 9. In such case, such entity shall deposit the clearing fund and complete other necessary procedures prescribed by JSCC by the day immediately preceding the Effective Date.  
(\*1 limited only to the entity who does not hold Index Futures Clearing Qualification)
- 6 In the case where OSE has assumed the obligations under the Contracts Subject to Clearing prescribed in Item (2), Item (5), Item (6) and Item (11) of Paragraph 2 of Article 3, all as amended, as of the day immediately preceding the Effective Date, JSCC shall assume the obligations existing between OSE and the OSE's clearing participant\*1 on the

Effective Date. In such case, the provisions of Paragraph 1 of Article 46 shall apply *mutatis mutandis* to the assumption of such obligations, and the provisions of Item (1) of Paragraph 1 of Article 54 shall apply *mutatis mutandis* to the claims and obligations between JSCC and OSE in respect of the relevant assumption of the obligations.

(\*1 limited to those which became JSCC's Index Futures Clearing Participant or FX Clearing Participant on the Effective Date)

7 With respect to the application of the provisions of Article 40 to the case where the entity who obtained the approval set forth in Paragraph 2 is to conclude the Contract for Commissioning Clearance prescribed in Article 39 on the Effective Date, the word "in advance" in said Paragraph shall be deemed to be "without delay".

8 In addition to the provisions of Paragraph 2 through the preceding Paragraph, matters regarding the handling of the assumption of obligations at the time these revised Business Rules come into effect and other necessary matters shall be set by JSCC on all such occasions.

Supplementary Provisions

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

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

Supplementary Provisions

1 These revised Business Rules shall come into effect on March 24, 2014.

2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than March 24, 2014.

Supplementary Provisions

These revised Rules shall come into effect on March 31, 2014.

Supplementary Provisions

These revised Rules shall come into effect on October 23, 2014.

Supplementary Provisions

These revised Rules shall come into effect on December 1, 2014.

Supplementary Provisions

- 1 These revised Rules shall come into effect on September 24, 2015.
- 2 Notwithstanding the provisions of the immediately preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than September 24, 2015.

Supplementary Provisions

- 1 These revised Business Rules shall come into effect on October 13, 2015.
- 2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than October 13, 2015.

Supplementary Provisions

- 1 These revised Business Rules shall come into effect on January 8, 2016; provided that revisions to Article 15-3, Paragraph 4 of Article 15-4, Article 17 and Article 78-2 shall come into effect on the next day following the date on which other revisions to these Business Rules come into effect (or next business day, if such day falls on a non-business day).
- 2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than January 8, 2016.

=End=

# Rules on Margins, etc. for Futures and Option Contracts



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This English translation of the Rules has been prepared solely for reference purposes and shall not have any binding force. The original Japanese text shall be definitive when construing or interpreting the meaning of any provision.

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
**Rules on Margins, etc. for Futures and Option Contracts**  
(In effect as of January 10, 2017)

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**<Appendix> Table Concerning Types of Securities Deposited in lieu of Cash and their Substituting Prices, etc.**

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
Chapter 1 General Provisions

(Article 1 Purpose)

These Rules set forth necessary matters concerning the Margin relating to the Futures and Option Contracts and the handling of the Unsettled Contracts in the event of the Suspension of Obligation Assumption due to Insolvency pursuant to the provisions of Paragraph 1 of Article 73-43 of the Business Rules.

(Article 2 Definitions)

- 1 In these Rules, the term, "Futures Contract," refers to a JGB Futures Contract or an Index Futures Contract.
- 2 In these Rules, the term, "Option Contract," refers to a Security Option Contract, an Option Contract on JGB Futures or an Index Option Contract.
- 3 In these Rules, the term, "Designated Market Operator," refers to the Designated Market Operator operating the Designated Financial Instruments Market set forth in Item (2) through Item (6) of Paragraph 2 of Article 3 of the Business Rules.
- 4 In these Rules, the term, "Trading Participant," refers to a person who has the trading qualification in respect of Futures Contract or Option Contract in the Financial Instruments Market operated by the Designated Market Operator.
- 5 In these Rules, the term, "Obligations Pertaining to Futures and Option Contracts" refers to the obligations to pay money in connection with the settlement of Futures and Option Contracts, the obligations to deliver securities in connection with the Settlement by Physical delivery and Payment of Futures Contracts on JGB Futures and the settlement resulting from the exercise of options under Security Option Contracts, and other obligations to be incurred with respect to Futures and Option Contracts.
- 6 In these Rules, the word, "Broker," refers to a customer that is a Financial Instruments Business Operator or a Registered Financial Institution and commissions a Trading Participant to execute Futures and Option Contracts, where such commission results from the brokerage of commission of Futures and Option Contracts to such Trading Participant.
- 7 In these Rules, the word, "Applicant," refers to a person who has submitted to a Broker an application for brokerage of commission.
- 8 In these Rules, the word, "SPAN," refers to the margin calculation method, known as "SPAN," which was developed by the Chicago Mercantile Exchange.
- 9 In these Rules, the term, "Clearing Participant," refers to a person who has JGB Futures Clearing Qualification or Index Futures Clearing Qualification among the Clearing Participant stipulated in Paragraph 1 of Article 5 of the Business Rules.
- 10 In these Rules, the term, "Non-Clearing Participant," refers to the Index Futures

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts Non-Clearing Participant stipulated in Paragraph 2 of Article 73-2 of the Business Rules, the JGB Futures Non-Clearing Participant stipulated in Paragraph 2 of Article 73-6 of the said rules, the Index Futures Non-Clearing Participant stipulated in Paragraph 2 of Article 73-20 of the said rules and the Index Futures Non-Clearing Participant stipulated in Paragraph 2 of Article 73-26 of the said rules.

11 In these Rules, the term, "Designated Clearing Participant," refers to a person designated by a Non-Clearing Participant as an entity to whom the Brokerage for Clearing of Securities, etc. in relation to Futures Contracts and Option Contracts is commissioned among the Designated Clearing Participant stipulated in Paragraph 1 of Article 6 of the Business Rules.

12 In these Rules, the phrase, "Suspension of Obligation Assumption due to Insolvency" refers to the measure taken to suspend assumption of obligations pursuant to the provisions of Paragraph 1 of Article 29<sup>\*1</sup> of the Business Rules or the measure taken to suspend assumption of obligations pursuant to the provisions of Paragraph 5 of Article 76 of the Business Rules.

(\*1 limited to the suspension due to a violation of the Instructions for Improvement on Position Holding pursuant to the provisions of Article 29-3 of the Business Rules)

13 In these Rules, the phrase, "Suspension of Transactions, etc. due to Insolvency" refers to: the measure to suspend the selling/buying, etc. of securities<sup>\*1</sup> or the commission of the Brokerage for Clearing of Securities, etc.<sup>\*2</sup> taken by the Designated Market Operator; or the measure to suspend the selling/buying, etc. of securities<sup>\*3</sup> or the commission of the Brokerage for Clearing of Securities, etc. taken by the Designated Market Operator in the event of suspension of assumption of obligations pursuant to the provisions of Paragraph 1 of Article 29<sup>\*4</sup> or Paragraph 5 of Article 76 of the Business Rules.

(\*1 excluding those pursuant to the Brokerage for Clearing of Securities, etc.)

(\*2 limited to measures taken due to the Designated Market Operator's determination that a Trading Participant is actually, or has the potential of becoming, unable to make payments)

(\*3 excluding those pursuant to the Brokerage for Clearing of Securities, etc.)

(\*4 limited to the suspension due to a violation of the Instructions for Improvement on Position Holding pursuant to the provisions of Article 29-3 of the Business Rules)

14 In these Rules, the "Trading Day" refers to the trading day prescribed by the Designated Market Operator in respect of Futures and Option Contracts.

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
Chapter 2 Margin

Section 1 General Clauses

(Article 3 Purpose of the Margin)

1 The purpose of the Margin is to ensure the performance of a Clearing Participant's payment or delivery Obligations Pertaining to Futures and Option Contracts owed to JSCC, a Non-Clearing Participant's payment or delivery Obligations Pertaining to Futures and Option Contracts owed to a Clearing Participant, or a customer's Obligations Pertaining to Futures and Option Contracts owed to a Trading Participant<sup>\*1</sup>, respectively, pursuant to the provisions of these Rules.

(\*1 in the case where such customer is a Broker, including an Applicant's Obligations Pertaining to Futures and Option Contracts owed to such customer)

2 In the event of the occurrence of any default concerning the obligations set forth in the preceding Paragraph, JSCC, Clearing Participants, Non-Clearing Participants and the customers which are Brokers, as applicable, may exercise their respective rights concerning the Margin and appropriate it to the relevant obligations.

(Article 4 Amount Required for the Margin for Proprietary Account of Trading Participants)

The amount required for the Margin for proprietary account shall be an amount<sup>\*1</sup> equal to the amount of the SPAN Margin Requirement for proprietary account, reduced by the total amount of the net option value for proprietary account —the terms used above shall have the meanings set forth in the following Items:

(\*1 if measures of increasing an amount required for the Margin for the proprietary account are taken pursuant to the provisions of Paragraph 1 of Article 6-2, the relevant add-on charge shall be added)

(1) SPAN Margin Requirement for proprietary account:

The amount of margin calculated in accordance with SPAN with respect to a Trading Participant's proprietary Position relating to Futures and Option Contracts<sup>\*1</sup>.

(\*1 other than Position which becomes subject to a Cross Margining Request on the relevant Trading Day)

(2) Total amount of net option value for proprietary account:

The amount equal to the total amount of buying net option value for proprietary account, reduced by the total amount of selling net option value for proprietary account, set forth in A) or B) below:

A) The total amount of buying net option value for proprietary account shall be the total sum of the value calculated in accordance with the provisions of (a) through (c) below with respect to each issue whose buying Position for a Trading Participant's proprietary

## Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
account exceeds its selling Position:

- (a) With respect to Security Option Contracts, the amount equal to the Net Buying Amount<sup>\*1</sup> for a Trading Participant's proprietary account, multiplied by the Settlement Price<sup>\*2</sup> of the relevant issue on the applicable day, and then further multiplied by the Trading Unit<sup>\*3</sup> of the underlying securities of the relevant issue;

(\*1 referring to the difference between the amount of the Long Position and the amount of the Short Position where the amount of the Long Position exceeds the amount of the Short Position; the same applies hereinafter)

(\*2 referring to the Settlement Price stipulated in Article 7; the same applies hereinafter in this Article)

(\*3 in the case where the Designated Market Operator has prescribed the ex-rights day of the selling/buying of underlying securities and where the relevant issue is the underlying securities of the Security Options subject to the Security Option Contract on or after such ex-right day, the amount equal to the Trading Unit of the underlying securities multiplied by the value prescribed by the Designated Market Operator; the same applies hereinafter)

- (b) With respect to Option Contracts on JGB Futures, the amount equal to the Net Buying Amount for a Trading Participant's proprietary account, multiplied by the Settlement Price of the relevant issue on the applicable Trading Day, and then further multiplied by 1/100 of the face value of the JGB Futures Contract resulting from the exercise of 1 unit of the option on JGB Futures; and

- (c) With respect to Index Option Contracts, the amount equal to the Net Buying Amount for a Trading Participant's proprietary account, multiplied by the Settlement Price of the relevant issue on the applicable Trading Day, and then further multiplied by the Base Trading Amount<sup>\*1</sup> of the relevant issue.

(\*1 referring to the base trading amount or trading unit prescribed by the Designated Market Operator as the amount by which the difference between the exercise price and the actual index is to be multiplied for the purpose of computing the amount of money to be paid/received upon the exercise of an option relating to the Index Option Contract; the same applies hereinafter)

- B) The total amount of selling net option value for proprietary account shall be the total sum of the value calculated in accordance with the provisions of (a) through (c) below with respect to each issue whose selling Position for a Trading Participant's proprietary account exceeds its buying Position:

- (a) With respect to Security Option Contracts, the amount equal to the Net Selling Amount<sup>\*1</sup> for a Trading Participant's proprietary account, multiplied by the Settlement Price of the relevant issue on the applicable day, and then further multiplied by the Trading Unit of the underlying securities of the relevant issue;

## Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
(\*<sup>1</sup> referring to the difference between the amount of the Short Position and the amount of the Long Position where the amount of the Short Position exceeds the amount of the Long Position; the same applies hereinafter)

- (b) With respect to Option Contracts on JGB Futures, the amount equal to the Net Selling Amount for a Trading Participant's proprietary account, multiplied by the Settlement Price of the relevant issue on the applicable Trading Day, and then further multiplied by 1/100 of the face value of the JGB Futures Contract resulting from the exercise of 1 unit of the option on JGB Futures; and
- (c) With respect to Index Option Contracts, the amount equal to the Net Selling Amount for a Trading Participant's proprietary account, multiplied by the Settlement Price of the relevant issue on the applicable Trading Day, and then further multiplied by the Base Trading Amount of the relevant issue.

### (Article 5 Amount Required for Customer's Margin)

The provisions of the preceding Paragraph shall apply *mutatis mutandis* to the amount required for the customer's Margin. In such case, the phrase, "amount required for the Margin for proprietary account shall be," shall be deemed to be "amount required for the customer's Margin shall be"; the phrase, "SPAN Margin Requirement for proprietary account," shall be deemed to be "customer's SPAN Margin Requirement"; the phrase, "total amount of net option value for proprietary account," shall be deemed to be "total amount of the customer's net option value"; the phrase "an amount\*<sup>1</sup> equal to," shall be deemed to be "an amount equal to"; the phrase, "for a Trading Participant's proprietary account" shall be deemed to be "as commissioned by the applicable customer"; the phrase, "total amount of buying net option value for proprietary account" shall be deemed to be "total amount of the customer's buying net option value"; and the phrase, "total amount of selling net option value for proprietary account," shall be deemed to be "total amount of the customer's selling net option value.

(\*<sup>1</sup> if measures of increasing an amount required for the Margin for the proprietary account are taken pursuant to the provisions of Paragraph 1 of Article 6-2, the relevant add-on charge shall be added)

### (Article 6 SPAN Parameters)

The parameters and other matters which are necessary for computing the Margin by SPAN shall be prescribed by JSCC.

### (Article 6-2 Measures of Increasing Amount Required for Margin according to Risk Amount)

1 When a value prescribed by JSCC as risk amount assumed to be owed in the Position for proprietary account of a Clearing Participant related to Futures and Option Contracts or the

## Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts Position pursuant to the commission by customers or the commission of the Brokerage for Clearing of Securities, etc. from a Non-Clearing Participant exceeds the threshold for judgment prescribed by JSCC, JSCC may increase an amount required for Margin for the proprietary account of the relevant Clearing Participant.

- 2 When JSCC takes the measures of increasing an amount required for the Margin for the proprietary account as set forth in the preceding Paragraph and it falls on the case prescribed by JSCC, in lieu of increasing the amount required for the Margin for the proprietary account, such part of the amount of add-on charge as designated by JSCC may be added to the amount required for the Margin for customer's account and the Margin pertaining to the Brokerage for Clearing of Securities, etc. in a manner prescribed by JSCC.
- 3 The risk amount set forth in Paragraph 1 shall be calculated every Trading Day, and JSCC will make judgment on whether or not to increase an amount required for the Margin based on the results of such calculation of the risk amount.

### (Article 7 Settlement Price Relating to Option Contracts)

On each Trading Day\*<sup>1</sup>, in accordance with the rules prescribed by JSCC, JSCC shall set the Settlement Price of each issue involved in Option Contracts as of each Trading Day from the initial trading day of each relevant issue prescribed by the Designated Market Operator through the day immediately preceding the Exercise Date.

(\*<sup>1</sup> in the case of a Security Option Contract, every day)

(\*<sup>2</sup> in the case of an Option Contract on JGB Futures, through the expiration date of the Exercise Period)

### (Article 8 Securities Deposited in lieu of Cash)

- 1 Matters concerning the securities to be deposited in lieu of cash as the Margin, the Customer Margin or Brokerage Margin shall be prescribed in the *Appendix*.
- 2 In addition to the provisions of the preceding Paragraph, matters concerning the securities to be deposited in lieu of cash as the Margin, the Customer Margin or Brokerage Margin shall be prescribed by JSCC.

## Section 2 Margin Pertaining to Clearing Participants

### (Article 9 Deposit of the Margin for Proprietary Account)

Upon the formation of selling/buying Futures Contracts or selling Option Contracts for proprietary account, a Clearing Participant shall deposit with JSCC, in accordance with the rules prescribed by JSCC, the Margin in an amount not less than the amount required for the Margin for proprietary account prescribed in Article 4. In such event, securities may be deposited in lieu of cash as the relevant Margin.

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts

(Article 10 Deposit of the Margin for Customers' Account and the Margin Pertaining to the Brokerage for Clearing of Securities, etc.)

Upon the formation of selling/buying Futures Contracts or selling Option Contracts pursuant to the commissions by customers or the commissions of the Brokerage for Clearing of Securities, etc. by Non-Clearing Participant, a Clearing Participant shall deposit with JSCC the Margin in an amount not less than the amount required for the Margin for customers' account and the Margin pertaining to the Brokerage for Clearing of Securities, etc. stipulated in the provisions of Paragraph 2 of Article 25\*<sup>1</sup>.

(\*<sup>1</sup> if the measures of increasing the amount required for the Margin for customers' account and the Margin pertaining to the Brokerage for Clearing of Securities, etc. have been taken pursuant to the provisions of Paragraph 2 of Article 6-2, the relevant add-on charge shall be added)

(Article 11 Deposit of the Margin for Customers' Account)

1 A Clearing Participant shall deposit with JSCC, on behalf of the relevant customer, the entire amount of the Margin which is provided by the customer in accordance, with the rules prescribed by JSCC.

2 Notwithstanding the provisions of the preceding Paragraph, a Clearing Participant may deposit with JSCC as the Margin its own fund in an amount not less than an amount equal to the sum of the amount of money and the Marked to Market Value\*<sup>1</sup> of the securities, which have been provided by the relevant customer as the Margin, in accordance with the rules prescribed by JSCC, during the four-day period commencing on the day on which the customer provides the Margin\*<sup>2</sup>. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(\*<sup>1</sup> referring to the value which is valued based on the market price\*<sup>1-1</sup> on the day\*<sup>1-2</sup> which is two days before the day on which the Margin is deposited\*<sup>1-3</sup>; the same applies hereinafter in the immediately following Paragraph, and Paragraph 2 and Paragraph 3 of Article 13)

(\*<sup>1-1</sup> referring to the market price stipulated in Paragraph 2 of the *Appendix*; the same applies hereinafter)

(\*<sup>1-2</sup> if such day falls on a Non-business Day, the day shall be the immediately preceding business day; the same applies hereinafter)

(\*<sup>1-3</sup> in the case where the applicable securities are U.S. Treasury Bonds/Notes/Bills, an amount equal to their market price, converted to Japanese yen at the telegraphic transfer spot buying rate per dollar in the Tokyo foreign exchange market on the day which is two days before the day on which the Margin is deposited)

(\*<sup>2</sup> excluding Non-business Days; the same applies hereinafter when counting the number

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
of days)

3 In the case where a customer deposits the Customer Margin, a Clearing Participant shall deposit with JSCC as the Margin its own fund in an amount not less than an amount equal to the sum of the amount of money and the Marked to Market Value of the securities, which have been deposited as the Customer Margin by the relevant customer, in accordance with the rules prescribed by JSCC. In such event, securities may be deposited in lieu of cash as the relevant Margin.

4 When any of the preceding three Paragraphs applies, if the sum of the amount of money and the value of the securities valued based on their substituting prices<sup>\*1</sup>, which have been deposited with or provided to the Clearing Participant by a customer as the Margin or the Customer Margin, is less than the amount required for the Margin<sup>\*2</sup> for the relevant customer, the Clearing Participant shall deposit with JSCC as the Margin its own fund in an amount not less than an amount equal to such amount required for Margin, deducting the value of the Margin and/or the Customer Margin deposited or provided by such customer, in accordance with the rules prescribed by JSCC. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(<sup>\*1</sup> referring to the amount equal to the market price on the day which is two days before the day on which the Margin is deposited, multiplied by the rate set forth in Paragraph 2 of the *Appendix*<sup>\*1-1</sup>; the same applies hereinafter in Paragraph 4 of Article 13)

(<sup>\*1-1</sup> in the case where the applicable securities are U.S. Treasury Bonds/Notes/Bills, an amount equal to their market price, multiplied by the rate set forth in Paragraph 2 of the *Appendix*, and then converted to Japanese yen at the telegraphic transfer spot buying rate per dollar in the Tokyo foreign exchange market on the day which is two days before the day on which the Margin is deposited)

(<sup>\*2</sup> referring to the amount required for the customer's Margin to which the provisions set forth in Article 4 is applied *mutatis mutandis* pursuant Article 5 after the relevant changes are made; the same applies hereinafter)

(Article 12 Special Provisions Concerning Deposit of the Margin Pertaining to Brokers)

Notwithstanding the provisions of Paragraph 1 of the preceding Article, in the case where a customer provides the Margin to a Clearing Participant on behalf of an Applicant, such Clearing Participant, on behalf of the relevant Applicant, shall deposit the entire amount thereof with JSCC.

(Article 13 Deposit of the Margin Pertaining to the Brokerage for Clearing of Securities, etc.)

1 A Clearing Participant shall deposit with JSCC the entire amount of the Margin provided by a Non-Clearing Participant, on behalf of the relevant Non-Clearing Participant or of a customer of the relevant Non-Clearing Participant, in accordance with the rules prescribed

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts by JSCC.

2 Notwithstanding the provisions of the preceding Paragraph, until the day\*<sup>1</sup> immediately following the day on which a Non-Clearing Participant has provided the Margin for proprietary account, a Clearing Participant may deposit with JSCC as the Margin its own fund in an amount not less than an amount equal to the sum of the amount of money and the Marked to Market Value of the securities, which have been provided by the relevant Non-Clearing Participant as the Margin, in accordance with the rules prescribed by JSCC. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(\*<sup>1</sup> if such day falls on a Non-business Day, the day shall be the immediately following business day; the same applies hereinafter)

3 In the case where a Non-Clearing Participant deposits the Margin of the Non-Clearing Participant\*<sup>1</sup>, a Clearing Participant shall deposit with JSCC as the Margin its own fund in an amount not less than an amount equal to the sum of the amount of money and the Marked to Market Value of the securities, which have been deposited as the Margin of the Non-Clearing Participant by the relevant Non-Clearing Participant in accordance with the rules prescribed by JSCC. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(\*<sup>1</sup> referring to the Margin stipulated by the Designated Market Operator as the margin of a non-clearing participant; the same applies hereinafter)

4 When any of the preceding three Paragraphs applies, if the sum of the amount of money and the value of the securities valued based on their substituting prices, which have been provided to or deposited with the Clearing Participant by a Non-Clearing Participant as the Margin or Margin of the Non-Clearing Participant is less than the amount which such Non-Clearing Participant reported as the amount required for the Margin for the relevant Non-Clearing Participant, in accordance with the rules prescribed by the Designated Market Operator, the Clearing Participant shall deposit with JSCC as the Margin its own fund in an amount not less than an amount equal to such required amount, deducting the value of the Margin and/or the Margin of the Non-Clearing Participant provided or deposited by such Non-Clearing Participant in accordance with the rules prescribed by JSCC. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(Article 14 Special Provisions Concerning Deposit of the Margin Pertaining to the Brokerage for Clearing of Securities, etc., which Constitutes the Margin Pertaining to Brokers)

Notwithstanding the provisions of Paragraph 1 of the preceding Article, in the case where a Non-Clearing Participant provides the Margin to a Clearing Participant on behalf of an Applicant, such Clearing Participant, on behalf of the relevant Applicant, shall deposit the entire amount thereof with JSCC.

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
(Article 15 Cutoff Time for Depositing the Margin)

The deposit of the Margin pursuant to the provisions of Article 9 through the preceding Article shall be completed by noon on the day immediately following the day on which the Trading Day\*<sup>1</sup> on which a selling/buying Futures Contract or a selling Option Contract is formed ends.

(\*<sup>1</sup> in the case of a Security Option Contract, the day on which a selling Option Contract is formed)

(Article 16 Maintenance of the Margin for Proprietary Account)

In the case where the sum of the amount of money and the value of the securities valued based on their substituting price\*<sup>1</sup>, which have been deposited with JSCC by a Clearing Participant as the Margin for proprietary account, is less than the amount required for the Margin for proprietary account, such Clearing Participant shall additionally deposit with JSCC as the Margin for proprietary account an amount not less than the amount of such shortfall, in accordance with the rules prescribed by JSCC, at or before noon on the day immediately following the day on which such shortfall occurs. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(\*<sup>1</sup> referring to the amount equal to the market price on the day\*<sup>1-1</sup> immediately preceding the day on which the calculation is made, multiplied by the rate set forth in Paragraph 2 of the *Appendix*\*<sup>1-2</sup>; the same applies hereinafter in the following Article, Paragraph 2 of Article 18 and Paragraph 3 of Article 19)

(\*<sup>1-1</sup> if such day falls on a Non-business Day, the day shall be the immediately preceding business day; the same applies hereinafter)

(\*<sup>1-2</sup> in the case where the applicable securities are U.S. Treasury Bonds/Notes/Bills, an amount equal to their market price, multiplied by the rate set forth in Paragraph 2 of the *Appendix*, and then converted to Japanese yen at the telegraphic transfer spot buying rate per dollar in the Tokyo foreign exchange market on the day immediately preceding the day on which the calculation is made)

(Article 17 Maintenance of the Margin for Customers' Account and the Margin Pertaining to the Brokerage for Clearing of Securities, etc.)

In the case where the sum of the amount of money and the value of the securities valued based on their substituting prices, which have been deposited with JSCC as the Margin for customers' account and the Margin pertaining to the Brokerage for Clearing of Securities, etc., is less than the amount required for the Margin for customers' account and the Margin pertaining to the Brokerage for Clearing of Securities, etc., which is set forth in Paragraph 2 of Article 25\*<sup>1</sup>, such Clearing Participant shall additionally deposit with JSCC as the Margin for customers' account and the Margin pertaining to the Brokerage for Clearing of Securities, etc. an amount not less than the amount of such shortfall, in accordance with the rules prescribed

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts by JSCC, by noon on the day immediately following the date on which such shortfall occurs. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(\*1 if the measures of increasing the amount required for the Margin for customers' account and the Margin pertaining to the Brokerage for Clearing of Securities, etc. have been taken pursuant to the provisions of Paragraph 2 of Article 6-2, the relevant add-on charge shall be added)

(Article 18 Maintenance of the Margin for Customers' Account)

1 In the case where the sum of the amount of money and the Marked to Market Value<sup>\*1</sup> of the securities, which have been deposited with JSCC by a Clearing Participant as the Margin pertaining to a customer pursuant to the provisions of Paragraph 1 through Paragraph 3 of Article 11 or Article 12 is less than the sum of the amount of money and the Marked to Market Value of the securities, which have been provided to or deposited with the Clearing Participant by the relevant customer as the Margin or Customer Margin, such Clearing Participant shall additionally deposit with JSCC as the Margin for the customer's account an amount not less than the amount of such shortfall, in accordance with the provisions of Paragraph 1 through Paragraph 3 of Article 11 or Article 12, by noon on the day immediately following the day on which such shortfall occurs.

(\*1 referring to the amount which is valued based on the market price on the day immediately preceding the day on which the calculation is made<sup>\*1-1</sup>; the same applies hereinafter in this Paragraph, Paragraph 2 and Paragraph 3 of Article 13 which are applied *mutatis mutandis* under Paragraph 1 of the immediately following Article, Paragraph 2 of the following Article and Article 24)

(\*1-1 in the case where the applicable securities are U.S. Treasury Bonds/Notes/Bills, an amount equal to their market price, converted to Japanese yen at the telegraphic transfer spot buying rate per dollar in the Tokyo foreign exchange market on the day immediately preceding the day on which the calculation is made)

2 In the case where the sum of the amount of money and the value of the securities valued based on their substituting prices, which have been deposited or provided by a customer as the Margin or Customer Margin, is less than the amount required for the Margin for the relevant customer's account, the Clearing Participant shall additionally deposit with JSCC, as the Margin for the customer's account, an amount not less than the amount of such shortfall, in accordance with the provisions of Paragraph 4 of Article 11, by noon on the day immediately following the day on which such shortfall occurs.

(Article 19 Maintenance of the Margin Pertaining to the Brokerage for Clearing of Securities, etc.)

1 In the case where a shortfall occurs with respect to the Margin to be provided to a Clearing

## Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts Participant by a Non-Clearing Participant pursuant to the rules prescribed by the Designated Market Operator, and where the relevant Non-Clearing Participant additionally provides the Margin in an amount not less than the amount of such shortfall, such Clearing Participant shall additionally deposit the entire amount of such Margin with JSCC in accordance with the provisions of Paragraph 1 through Paragraph 3 of Article 13 or Article 14 by noon on the day immediately following the day on which such shortfall occurs.

2 In the case where the sum of the amount of money and the Marked to Market Value of the securities deposited with JSCC by a Clearing Participant as the Margin pertaining to a Non-Clearing Participant pursuant to the provisions of Paragraph 2 of Article 13<sup>\*1</sup> and Paragraph 3 of Article 13<sup>\*2</sup> is less than the sum of the amount of money and the Marked to Market Value of the securities, which have been provided to or deposited with the Clearing Participant by the relevant Non-Clearing Participant as the Margin for proprietary account or the Margin of the Non-Clearing Participant, such Clearing Participant shall additionally deposit with JSCC as the Margin for the Non-Clearing Participant's proprietary account or the Margin of the Non-Clearing Participant's customer's account an amount not less than the amount of such shortfall, in accordance with the provisions of Paragraph 2 or Paragraph 3 of Article 13 which are applied *mutatis mutandis* under the provisions of the preceding Paragraph, by noon on the day immediately following the day on which such shortfall occurs.

(\*1 including the case where such provisions apply *mutatis mutandis* pursuant to the provisions of the preceding Paragraph)

(\*2 including the case where such provisions apply *mutatis mutandis* pursuant to the provisions of the preceding Paragraph)

3 In the case where the sum of the amount of money and the value of the securities valued based on their substituting prices, which have been provided or deposited by a Non-Clearing Participant as the Margin or Margin of the Non-Clearing Participant, is less than the amount which such Non-Clearing Participant reported as the amount required for the Margin for the relevant Non-Clearing Participant in accordance with the rules prescribed by the Designated Market Operator, such Clearing Participant shall additionally deposit with JSCC as the Margin an amount not less than the amount of such shortfall, in accordance with the provisions of Paragraph 4 of Article 13, by noon on the day immediately following the day on which such shortfall occurs.

(Article 20 Classification and Management Method Concerning the Margin)

1 The deposit of the Margin prescribed in Article 9 through Article 14 and Article 16 through the preceding Article shall be made based on the classification of the Margin set forth in the Items below:

(1) The Margin deposited with JSCC by a Clearing Participant in connection with Futures

Reference Translation

- Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts and Option Contracts for its proprietary account<sup>\*1</sup>;  
(\*<sup>1</sup> hereinafter referred to as the "Clearing Participant's Proprietary Margin")
- (2) The portion of the Margin deposited with JSCC by a Clearing Participant in connection with Futures and Option Contracts pursuant to the commission by a customer<sup>\*1</sup>, which is provided as the Margin to the relevant Clearing Participant by the customer<sup>\*2</sup>;  
(\*<sup>1</sup> hereinafter referred to as the "Clearing Participant's Commissioned Margin")  
(\*<sup>2</sup> excluding the Margin set forth in the immediately following Item; hereinafter referred to as the "Clearing Participant's Commissioned Margin (Direct Deposit)")
- (3) Where a Brokerage Margin is deposited with a customer by an Applicant, the portion of the Clearing Participant's Commissioned Margin which is provided to a Clearing Participant by the customer as the Margin equivalent to the relevant Brokerage Margin<sup>\*1</sup>;  
(\*<sup>1</sup> hereinafter referred to as the "Clearing Participant's Commissioned Margin (Replaced by Broker)")
- (4) The portion of the Clearing Participant's Commissioned Margin which is not described in the preceding two Paragraphs<sup>\*1</sup>;  
(\*<sup>1</sup> hereinafter referred to as the "Clearing Participant's Commissioned Margin (Replaced)")
- (5) The portion of the Margin deposited with JSCC by a Designated Clearing Participant in connection with Futures and Option Contracts pertaining to a Non-Clearing Participant's proprietary account<sup>\*1</sup>, which is provided as the Margin by the relevant Non-Clearing Participant to the relevant Designated Clearing Participant<sup>\*2</sup>;  
(\*<sup>1</sup> hereinafter referred to as the "Non-Clearing Participant's Proprietary Margin")  
(\*<sup>2</sup> hereinafter referred to as the "Non-Clearing Participant's Proprietary Margin (Direct Deposit)")
- (6) The portion of the Non-Clearing Participant's Proprietary Margin which is not described in the immediately preceding Item<sup>\*1</sup>;  
(\*<sup>1</sup> hereinafter referred to as the "Non-Clearing Participant's Proprietary Margin (Replaced)")
- (7) The portion of the Margin deposited with JSCC by a Designated Clearing Participant in connection with Futures and Option Contracts pursuant to the commission by a Non-Clearing Participant's customer<sup>\*1</sup>, which is provided as the Margin by the relevant customer to the relevant Non-Clearing Participant<sup>\*2</sup>;  
(\*<sup>1</sup> hereinafter referred to as the "Non-Clearing Participant's Commissioned Margin")  
(\*<sup>2</sup> excluding the Margin set forth in the immediately following Item; hereinafter referred to as the "Non-Clearing Participant's Commissioned Margin (Direct Deposit)")
- (8) Where a Brokerage Margin is deposited with a customer by an Applicant, the portion of the Non-Clearing Participant's Commissioned Margin, which is provided by such customer to the Non-Clearing Participant as the Margin equivalent to such Brokerage

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
Margin<sup>\*1</sup>; and

(\*1 hereinafter referred to as the "Non-Clearing Participant's Commissioned Margin (Replaced by Broker)")

(9) The portion of the Non-Clearing Participant's Commissioned Margin which is not described in the preceding two Paragraphs<sup>\*1</sup>.

(\*1 hereinafter referred to as the "Non-Clearing Participant's Commissioned Margin (Replaced)")

2 The Margin deposited with JSCC pursuant to the provisions of Article 9 through Article 14 and Article 16 through the preceding Article shall be managed by JSCC in accordance with the classification described in the Items under the preceding Paragraph.

(Article 21 Deposit of the Intra-Day Margin)

1 In the case where the prices of the JGB Futures Contracts or Index Futures Contracts fall under each Item below or where otherwise deemed necessary by JSCC, if the sum of the amount of money and the value of the securities valued based on their substituting prices<sup>\*1</sup>, which have been deposited with JSCC by a Clearing Participant as the Margin for proprietary account, is less than the amount required for the Intra-Day Margin stipulated in the immediately following Article, such Clearing Participant shall deposit with JSCC as the Margin for proprietary account an amount not less than the amount equal to such shortfall by 4 P.M. on the applicable day. In such event, securities may be deposited in lieu of cash as the relevant Margin.

(\*1 referring to the amount equal to the market price on the day which is two days before the applicable day, multiplied by the rate set forth in Paragraph 2 of the *Appendix*<sup>\*1-1</sup>)

(\*1-1 in the case where the applicable securities are U.S. Treasury Bonds/Notes/Bills, an amount equal to their market price, multiplied by the rate set forth in Paragraph 2 of the *Appendix*, and then converted to Japanese yen at the telegraphic transfer spot buying rate per dollar in the Tokyo foreign exchange market on the day which is two days before the applicable day)

(1) Where the extent of fluctuations in the prices of the JGB Futures Contracts exceeds the thresholds prescribed by JSCC in the Morning Session, or

(2) Where the extent of fluctuations in the prices of the Index Futures Contracts exceeds the thresholds prescribed by JSCC in the daytime session.

2 In the case where JSCC causes the Margin to be deposited pursuant to the provisions of the preceding Paragraph, JSCC shall provide the Clearing Participant with notice to that effect promptly.

3 The provisions of Paragraph 2 of the preceding Article shall apply *mutatis mutandis* to the Margin set forth in Paragraph 1.

## Reference Translation

### Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts (Article 22 Amount Required for the Intra-Day Margin)

The amount required for the Intra-Day Margin shall be the Recalculated Risk Amount, adding the amount of the Value Equivalent to Differences Pertaining to Futures Contracts and the amount of the Value Equivalent to Option Contract Price if such amounts are to be paid, and deducting the foregoing amounts if such amounts are to be received. In such event, the terms used above shall have the meanings set forth in the following Items:

(1) Recalculated Risk Amount:

An amount equal to the Margin requirement for proprietary account which is calculated pursuant to the provisions of Article 4, after the following changes are made to the provisions of Article 4: the phrase, "pursuant to the provisions of Paragraph 1 of Article 6-2" is deemed to be "on the previous Trading Day pursuant to the provisions of Paragraph 1 of Article 6-2"; the phrase, "Trading Participant's proprietary Position" is deemed to be "Trading Participant's proprietary Position at the end of Morning Session on the day on which the relevant Trading Day ends with respect to the JGB Futures Contract and Option Contract on JGB Futures, or at 11:00 A.M. on the applicable day<sup>\*2</sup> with respect to the Security Option Contract, Index Futures Contract and Index Option Contract; and the term, "the relevant Trading Day" is deemed to be "the immediately preceding Trading Day" and "Settlement Price," is deemed to be "Intra-Day Settlement Price."

(\*<sup>2</sup> in the case of an Index Futures Contract or Index Option Contract, the applicable Trading Day)

(2) Value Equivalent to Differences Pertaining to Futures Contracts:

With respect to a Futures Contract, the sum of the amounts prescribed in (a) and (b) below.

(a) Sum of the amounts prescribed in (i) and (ii) below:

- (i) With respect to a JGB Futures Contract for proprietary account, a JGB Futures Contract pursuant to the commission by a customer and a JGB Futures Contract pursuant to the commission of the Brokerage for Clearing of Securities, etc., which are concluded during the Night Session and Morning Session on the applicable Trading Day<sup>\*1</sup>, an amount equal to the difference between its contract price<sup>\*1</sup> and the Intra-Day Settlement Price<sup>\*2</sup>.

(\*<sup>1</sup> including J-NET Transactions<sup>\*1-1</sup> concluded before the end of the Morning Session on the applicable Trading Day; the same applies hereinafter in this (i))

(\*<sup>1-1</sup> referring to the J-NET Transactions prescribed by the Designated Market Operator; the same applies hereinafter)

- (ii) With respect to an Index Futures Contract for proprietary account<sup>\*1</sup>, an Index Futures Contract pursuant to the commission by a customer and an Index Futures Contract pursuant to the commission of the Brokerage for Clearing of Securities, etc., which are concluded in the night session and the daytime session before 11:00

## Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
A.M. of the applicable Trading Day, an amount equal to the difference between the contract price and the Intra-Day Settlement Price

(\*<sup>1</sup> including J-NET Transactions <sup>\*1-1</sup> concluded before the 11:00 A.M. on the applicable Trading Day; the same applies hereinafter in this (ii))

(b) With respect to a Position for proprietary account, a Position pursuant to the commission by a customer or a Position pursuant to the commission of the Brokerage for Clearing of Securities, etc. on the immediately preceding Trading Day, an amount equal to the difference between the Settlement Price on that preceding Trading Day and the Intra-Day Settlement Price.

(3) Value Equivalent to Option Contract Price:

The sum of the amounts prescribed in (a) and (b) below

(a) An amount equal to the contract price relating to an Option Contract on JGB Futures for proprietary account, an Option Contract on JGB Futures pursuant to the commission by a customer and an Option Contract on JGB Futures pursuant to the commission of the Brokerage for Clearing of Securities, etc., which are concluded during the Night Session and Morning Session on the applicable Trading Day<sup>\*1</sup>.

(\*<sup>1</sup> including J-NET Transactions concluded before the end of the Morning Session on the applicable Trading Day; the same applies hereinafter in this (a))

(b) An amount equal to the contract price relating to a Security/Index Option Contract for proprietary account, a Security/Index Option Contract pursuant to the commission by a customer and a Security/Index Option Contract pursuant to the commission of the Brokerage for Clearing of Securities, etc., which is concluded before 11:00 A.M. of the Morning Session<sup>\*1</sup> on the applicable day<sup>\*2</sup>.

(\*<sup>1</sup> with respect to an Index Option Contract, before 11:00 A.M. of the Daytime Session on the applicable Trading Day)

(\*<sup>2</sup> including J-NET Transactions concluded before 11:00 A.M. on the applicable day or Trading Day; the same applies hereinafter in this (b))

(Article 23 Intra-Day Settlement Price)

In the event that JSCC causes the Margin to be deposited pursuant to the provisions of Paragraph 1 of Article 21, JSCC shall prescribe the Intra-Day Settlement Price in accordance with the rules prescribed by JSCC.

(Article 24 Right to Claim a Refund of the Margin)

1 The entity referenced in one of the following Items shall have the right to claim a refund of such portion of the Clearing Participant's Commissioned Margin deposited with JSCC in connection with each customer of the Clearing Participant, which is described in the applicable Item; provided, however, that the amount of the refund shall not exceed the total

## Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts of: the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant's Commissioned Margin (Direct Deposit); and the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant customer as the Customer Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant's Commissioned Margin (Replaced)\*<sup>1</sup>.

(\*<sup>1</sup> including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC; hereinafter referred to as the "Total Sum of Clearing Participant's Margin Pertaining to Customer's Actual Deposit" in this Paragraph)

(1) The relevant customer

An amount equal to the Total Sum of Clearing Participant's Margin Pertaining to Customer's Actual Deposit, deducting an amount equal to the yet-to-be performed Obligations Pertaining to Futures and Option Contracts owed by the relevant customer to the Clearing Participant.

(2) The Clearing Participant

An amount equal to the Total Sum of Clearing Participant's Margin Pertaining to Customer's Actual Deposit, deducting the amount set forth in the preceding Item, and further deducting an amount equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Clearing Participant to JSCC, where such contracts are pursuant to the commission by the relevant customer.

2 Notwithstanding the provisions of the preceding Paragraph, in the case where the customer of the Clearing Participant is a Broker, the entity referenced in one of the following Items shall have the right to claim a refund of such portion of the Clearing Participant's Commissioned Margin deposited with JSCC in connection with an Applicant, which is described in the applicable Item; provided, however, that the amount of the refund shall not exceed the total of: the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC by the relevant Applicant as the Clearing Participant's Commissioned Margin (Direct Deposit); the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant Applicant as the Brokerage Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant's Commissioned Margin (Replaced by Broker); and the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant Applicant as the Brokerage Margin or the Customer Margin,

## Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant's Commissioned Margin (Replaced)\*<sup>1</sup>.

(\*<sup>1</sup> including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC; hereinafter referred to as the "Total Sum of Clearing Participant's Margin Pertaining to Applicant's Actual Deposit" in this Paragraph)

(1) The relevant Applicant

An amount equal to the Total Sum of Clearing Participant's Margin Pertaining to Applicant's Actual Deposit, deducting an amount equal to the yet-to-be performed Obligations Pertaining to Futures and Option Contracts owed by the relevant Applicant to the relevant customer.

(2) The relevant customer

An amount equal to the Total Sum of Clearing Participant's Margin Pertaining to Applicant's Actual Deposit, deducting the amount set forth in the preceding Item, and further deducting an amount equal to the yet-to-be performed Obligations Pertaining to Futures and Option Contracts owed by the relevant customer to the Clearing Participant, where such contracts are pursuant to the commission by the relevant Applicant.

(3) The Clearing Participant

An amount equal to the Total Sum of Clearing Participant's Margin Pertaining to Applicant's Actual Deposit, deducting the amounts set forth in the preceding two Items, and further deducting an amount equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Clearing Participant to JSCC, where such contracts are pursuant to the commission by the relevant Applicant.

3 Notwithstanding the provisions of Paragraph 1, in the case where the customer of the Clearing Participant is a Broker, the entity referenced in one of the following Items shall have the right to claim a refund of such portion of the Clearing Participant's Commissioned Margin deposited with JSCC in connection with a Broker, which is described in the applicable Item; provided, however, that the amount of the refund shall not exceed the total of: the amount deposited with JSCC in excess of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant Applicant as the Brokerage Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant's Commissioned Margin (Replaced by Broker); and the amount deposited with the Clearing Participant as the Customer Margin in excess of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant Applicant as the Brokerage Margin, which is a part of the sum of

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant's Commissioned Margin (Replaced)\*<sup>1</sup>.

(\*<sup>1</sup> including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC; hereinafter referred to as the "Total Sum of Clearing Participant's Margin Pertaining to Broker's Actual Deposit" in this Paragraph)

(1) The relevant customer

An amount equal to the Total Sum of Clearing Participant's Margin Pertaining to Broker's Actual Deposit, deducting an amount\*<sup>1</sup> equal to the yet-to-be performed Obligations Pertaining to Futures and Option Contracts owed by the relevant customer to the Clearing Participant.

(\*<sup>1</sup> excluding the amount which is deducted pursuant to the provisions of Item (2) of the preceding Paragraph)

(2) The Clearing Participant

An amount equal to the Total Sum of Clearing Participant's Margin Pertaining to Broker's Actual Deposit, deducting the amount set forth in the preceding Item, and further deducting an amount\*<sup>1</sup> equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Clearing Participant to JSCC, where such contracts are pursuant to the commission by the relevant customer.

(\*<sup>1</sup> excluding the amount which is deducted pursuant to the provisions of Item (3) of the preceding Paragraph)

4 The entity referenced in one of the following Items shall have the right to claim a refund of such portion of the Non-Clearing Participant's Commissioned Margin deposited with JSCC in connection with a customer of the Non-Clearing Participant, which is described in the applicable Item; provided, however, that the amount of the refund shall not exceed the total of: the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Direct Deposit); and the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant customer as the Customer Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced)\*<sup>1</sup>.

(\*<sup>1</sup> including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC; hereinafter referred to as the "Total Sum of Non-Clearing Participant's Margin Pertaining to Customer's Actual Deposit" in this Paragraph)

(1) The relevant customer

## Reference Translation

### Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Customer's Actual Deposit, deducting an amount equal to the yet-to-be performed Obligations Pertaining to Futures and Option Contracts owed by the relevant customer to the Non-Clearing Participant.

#### (2) The Non-Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Customer's Actual Deposit, deducting the amount set forth in the preceding Item, and further deducting an amount equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Non-Clearing Participant to the Designated Clearing Participant, where such contracts are pursuant to the commission by the relevant customer.

#### (3) The Designated Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Customer's Actual Deposit, deducting the amounts set forth in the preceding two Items, and further deducting an amount equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Designated Clearing Participant to JSCC, where such contracts are pursuant to the commission by the relevant customer.

5 Notwithstanding the provisions of the immediately preceding Paragraph, in the case where the customer of the Non-Clearing Participant is a Broker, the entity referenced in one of the following Items shall have the right to claim a refund of such portion of the Non-Clearing Participant's Commissioned Margin deposited with JSCC in connection with an Applicant, which is described in the applicable Item; provided, however, that the amount of the refund shall not exceed the total of: the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC by the relevant Applicant as the Non-Clearing Participant's Commissioned Margin (Direct Deposit); the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant Applicant as the Brokerage Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced by Broker); and the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant Applicant as the Brokerage Margin or Customer Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced)\*<sup>1</sup>.

(\*<sup>1</sup> including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC; hereinafter referred to as the "Total Sum of

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
Non-Clearing Participant's Margin Pertaining to Applicant's Actual Deposit" in this  
Paragraph)

(1) The relevant Applicant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Applicant's Actual Deposit, deducting an amount equal to the yet-to-be performed Obligations Pertaining to Futures and Option Contracts owed by the relevant Applicant to the relevant customer.

(2) The relevant customer

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Applicant's Actual Deposit, deducting the amount set forth in the preceding Item, and further deducting an amount equal to the yet-to-be performed Obligations Pertaining to Futures and Option Contracts owed by the relevant customer to the Non-Clearing Participant, where such contracts are pursuant to the commission by the relevant Applicant.

(3) The Non-Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Applicant's Actual Deposit, deducting the amounts set forth in the preceding two Items, and further deducting an amount equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Non-Clearing Participant to the Designated Clearing Participant, where such contracts are pursuant to the commission by the relevant Applicant.

(4) The Designated Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Applicant's Actual Deposit, deducting the amounts set forth in the preceding three Items, and further deducting an amount equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Designated Clearing Participant to JSCC, where such contracts are pursuant to the commission by the relevant Applicant.

6 Notwithstanding the provisions of Paragraph 4, in the case where the customer of the Non-Clearing Participant is a Broker, the entity referenced in one of the following Items shall have the right to claim a refund of such portion of the Non-Clearing Participant's Commissioned Margin deposited with JSCC in connection with a Broker, which is described in the applicable Item; provided, however, that the amount of the refund shall not exceed the total of: the amount deposited with JSCC in excess of the sum of the amount of money and the Marked to Market Value of the securities which has been deposited by the relevant Applicant as the Brokerage Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which has been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced by Broker); and the amount

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts deposited with the Non-Clearing Participant as the Customer Margin in excess of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited by the relevant Applicant as the Brokerage Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced)\*<sup>1</sup>.

(\*<sup>1</sup> including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC; hereinafter referred to as the "Total Sum of Non-Clearing Participant's Margin Pertaining to Broker's Actual Deposit" in this Paragraph)

(1) The relevant customer

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Broker's Actual Deposit, deducting an amount\*<sup>1</sup> equal to the yet-to-be performed Obligations Pertaining to Futures and Option Contracts owed by the relevant customer to the Non-Clearing Participant.

(\*<sup>1</sup> excluding the amount which is deducted pursuant to the provisions of Item (2) of the preceding Paragraph)

(2) The Non-Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Broker's Actual Deposit, deducting the amount set forth in the preceding Item, and further deducting an amount\*<sup>1</sup> equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Non-Clearing Participant to the Designated Clearing Participant, where such contracts are pursuant to the commission by the relevant customer.

(\*<sup>1</sup> excluding the amount which is deducted pursuant to the provisions of Item (3) of the preceding Paragraph)

(3) The Designated Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to Broker's Actual Deposit, deducting the amounts set forth in the preceding two Items, and further deducting the amount\*<sup>1</sup> equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Designated Clearing Participant to JSCC, where such contracts are pursuant to the commission by the relevant customer.

(\*<sup>1</sup> excluding the amount which is deducted pursuant to the provisions of Item (4) of the preceding Paragraph)

7 The entity referenced in one of the following Items shall have the right to claim a refund of such portion of the Non-Clearing Participant's Proprietary Margin and Non-Clearing

## Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
Participant's Commissioned Margin deposited with JSCC with respect to a Non-Clearing Participant, which is set forth in the applicable Item; provided, however, that the amount of the refund shall not exceed the total<sup>\*1</sup> of: the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Proprietary Margin (Direct Deposit); the sum of the amount of money and the Marked to Market Value of the securities which have been provided as the Margin to the Clearing Participant by the relevant Non-Clearing Participant, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Proprietary Margin (Replaced); the amount deposited with JSCC in excess of the sum of the amount<sup>\*2</sup> of money and the Marked to Market Value of the securities which have been deposited with the Non-Clearing Participant as the Customer Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced); and the amount deposited with the Clearing Participant as the Margin of the Non-Clearing Participant in excess of the sum of the amount<sup>\*3</sup> of money and the Marked to Market Value of the securities which have been deposited with the Non-Clearing Participant as the Customer Margin, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced).

(<sup>\*1</sup> hereinafter referred to as the "Total Sum of Non-Clearing Participant's Margin Pertaining to its own Actual Deposit" in this Paragraph)

(<sup>\*2</sup> including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC)

(<sup>\*3</sup> including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending upon the deposit of such Margin with JSCC)

### (1) The relevant Non-Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to its own Actual Deposit, deducting an amount<sup>\*1</sup> equal to the entire amount of the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Non-Clearing Participant to the Designated Clearing Participant.

(<sup>\*1</sup> excluding the amounts which are deducted pursuant to the provisions of Item (2) of Paragraph 4, Item (3) of Paragraph 5 and Item (2) of the preceding Paragraph)

### (2) The Designated Clearing Participant

An amount equal to the Total Sum of Non-Clearing Participant's Margin Pertaining to its own Actual Deposit, deducting the amount set forth in the preceding Item, and further

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts deducting an amount<sup>\*1</sup> equal to the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the Designated Clearing Participant to JSCC, where such contracts are pursuant to the relevant Non-Clearing Participant's commission of the Brokerage for Clearing of Securities, etc.

(\*1 excluding the amounts which are deducted pursuant to the provisions of Item (3) of Paragraph 4, Item (4) of Paragraph 5 and Item (3) of the preceding Paragraph)

8 A Clearing Participant shall have the right to claim a refund of such portion of the Clearing Participant's Proprietary Margin and Clearing Participant's Commissioned Margin deposited with JSCC with respect to such Clearing Participant, which is equal to the Total Sum of Clearing Participant's Margin Pertaining to its own Actual Deposit deducting an amount<sup>\*1</sup> equal to the entire amount of the yet-to-be performed payment or delivery Obligations Pertaining to Futures and Option Contracts owed by the relevant Clearing Participant to JSCC; provided, however, that the amount of the refund shall not exceed the total<sup>\*2</sup> of: the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant's Proprietary Margin; the amount deposited with JSCC in excess of the sum<sup>\*3</sup> of the amount of money and the Marked to Market Value of the securities which have been deposited with the Clearing Participant as the Customer Margin which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Clearing Participant's Commissioned Margin (Replaced); the amount deposited with JSCC in excess of the sum of the amount of money and the Marked to Market Value of the securities which have been provided as the Margin to the Clearing Participant by the relevant Non-Clearing Participant, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Proprietary Margin (Replaced); and the amount deposited with JSCC in excess of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with the Clearing Participant as the Margin of the Non-Clearing Participant by the relevant Non-Clearing Participant, which is a part of the sum of the amount of money and the Marked to Market Value of the securities which have been deposited with JSCC as the Non-Clearing Participant's Commissioned Margin (Replaced).

(\*1 excluding the amounts which are deducted pursuant to the provisions of Item (2) of Paragraph 1, Item (3) of Paragraph 2, Item (2) of Paragraph 3, Item (3) of Paragraph 4, Item (4) of Paragraph 5, Item (3) of Paragraph 6 and Item (2) of the preceding Paragraph)

(\*2 hereinafter referred to as the "Total Sum of Clearing Participant's Margin Pertaining to its own Actual Deposit" in this Paragraph)

(\*3 including the sum of the amount of money and the Marked to Market Value of the securities relating to the Margin provided by such customer, during the period ending

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts upon the deposit of such Margin with JSCC)

9 The right to claim a refund of the Margin shall be exercised in the manner prescribed by the following Items:

- (1) With respect to a Clearing Participant's right to claim a refund, the relevant Clearing Participant shall exercise such right to claim a refund after notifying JSCC that such right is being exercised;
- (2) With respect to a Non-Clearing Participant's right to claim a refund, the Designated Clearing Participant shall exercise it on behalf the relevant Non-Clearing Participant;
- (3) With respect to a Trading Participant's customer's right to claim a refund, the relevant Trading Participant\*<sup>1</sup> shall exercise it on behalf of such customer; and  
(\*<sup>1</sup> in the event that the relevant Trading Participant is a Non-Clearing Participant, the relevant Non-Clearing Participant and its Designated Clearing Participant)
- (4) With respect to an Applicant's right to claim a refund, the Trading Participant\*<sup>1</sup> to which the Futures and Option Contracts pursuant to the commission by the relevant Applicant is re-commissioned by a customer shall exercise it on behalf of the relevant Applicant.  
(\*<sup>1</sup> in the event that the relevant Trading Participant is a Non-Clearing Participant, the relevant Non-Clearing Participant and its Designated Clearing Participant)

(Article 24-2 Notification of Amount Required for Margin)

JSCC shall, on each Trading Day\*<sup>1</sup>, notify a Clearing Participant of the amount required for the Margin for its proprietary account on such Trading Day\*<sup>2</sup> after the process for fixing Positions\*<sup>3</sup>.

(\*<sup>1</sup> in the case of an Security Option Contract, every day)

(\*<sup>2</sup> in the case of an Security Option Contract, such day)

(\*<sup>3</sup> referring to the process to subtract the amount of the Offsetting-Sales/Offsetting-Purchases as the amount pertaining to the settlement pursuant to the provisions of Articles 73-2, 73-6, 73-16, 73-20 and 73-26 of the Business Rules and the process to add or subtract the Positions along with the exercise of option and the assignment of quantity pursuant to the provisions of Article 73-19 of the Business Rules)

(Article 25 Notification of the Amount Required for the Margin for Customers' Account and the Margin Pertaining to the Brokerage for Clearing of Securities, etc.)

1 On each Trading Day\*<sup>1</sup> and by the cutoff time prescribed by JSCC, a Clearing Participant shall notify JSCC of the amount required for the Margin for customers' account and the amount required for the Margin pertaining to the Brokerage for Clearing of Securities, etc., which are stipulated in the following Paragraph.

(\*<sup>1</sup> in the case of a Security Option Contract, every day)

2 The amount required for the Margin for customers' account and the amount required for the

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
Margin pertaining to the Brokerage for Clearing of Securities, etc. shall be the sum of the amount required for the Margin for each customer<sup>\*1</sup> and the amount reported by the relevant Non-Clearing Participant in accordance with the rules prescribed by the Designated Market Operator as the amount required for such Non-Clearing Participant's Margin.

(\*1 referring to the amount required for the Margin for each customer to which provisions of Article 4 apply *mutatis mutandis* pursuant to Article 5 after the relevant changes are made)

(Article 26 Obligation to Report Matters Concerning Futures and Option Contracts pursuant to the Commission by Customers and pursuant to the Non-Clearing Participants' Commission of the Brokerage for Clearing of Securities, etc.)

In the event that JSCC requests that a Clearing Participant submit a report setting forth the quantity of the Position pursuant to the commission by customers or other matters concerning Futures and Option Contracts pursuant to the commission by customers, the quantity of the Position pursuant to the commission of the Brokerage for Clearing of Securities, etc. and other matters concerning Futures and Option Contracts pursuant to the commission of the Brokerage for Clearing of Securities, etc., which are deemed necessary by JSCC, the Clearing Participant shall immediately submit a document setting forth such matters to JSCC.

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
Chapter 3 Handling, etc. of Unsettled Contracts in the case of  
Suspension of Obligation Assumption due to Insolvency

Section 1 Handling of Unsettled Contracts

(Article 27 Handling of Unsettled Contracts for the Clearing Participants' Proprietary Account)

1 In the event that JSCC implements the Suspension of Obligation Assumption due to Insolvency, JSCC may cause other Clearing Participants designated by JSCC to implement an Offsetting-Sale or Offsetting-Purchase, or exercise options, in connection with the Unsettled Contracts\*<sup>1</sup> for the Clearing Participant's proprietary account subject to the Suspension of Obligation Assumption due to Insolvency.

(\*<sup>1</sup> excluding the Unsettled Contracts relating to contract month contracts remaining after the Last Trading Day of the contract month contracts whose Last Trading Day has arrived; the same applies hereinafter in this Chapter)

2 When the preceding Paragraph applies, an entrustment agreement shall be deemed to have been formed between the other Clearing Participants designated by JSCC and the Clearing Participant subject to the Suspension of Obligation Assumption due to Insolvency.

(Article 28 Handling of Unsettled Contracts pursuant to the Commission by the Clearing Participants' Customers)

In the event that a Designated Market Operator implements the Suspension of Transactions, etc. due to Insolvency with respect to a Clearing Participant, JSCC shall cause those Unsettled Contracts between JSCC and the Clearing Participant subject to the Suspension of Transactions, etc. due to Insolvency\*<sup>1</sup>, which are pursuant to the commission by the relevant Clearing Participant's customers, to be transferred to other Clearing Participants, or cause other necessary arrangements to be made, depending on the details of the measure taken by the relevant Designated Market Operator.

(\*<sup>1</sup> hereinafter referred to as the "Insolvent Clearing Participant")

(Article 29 Handling of Unsettled Contracts pursuant to the Commission of the Brokerage for Clearing of Securities, etc.)

1 In the event that a Designated Market Operator implements the Suspension of Transactions, etc. due to Insolvency with respect to a Non-Clearing Participant, JSCC shall cause those Unsettled Contracts between JSCC and the Designated Clearing Participant of the Non-Clearing Participant subject to the Suspension of Transactions, etc. due to Insolvency, which are pursuant to the relevant Non-Clearing Participant's commission of the Brokerage for Clearing of Securities, etc., to be transferred to other Clearing Participants, or cause other necessary arrangements to be made, depending on the details of the measure taken

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts by the relevant Designated Market Operator.

- 2 In the event that, as a result of a Designated Clearing Participant becoming subject to the Suspension of Obligation Assumption due to Insolvency, a measure is taken by the Designated Market Operator with respect to the Non-Clearing Participant which is suspended from commissioning the Brokerage for Clearing of Securities, etc., under which those Unsettled Contracts between JSCC and the relevant Designated Clearing Participant, which constitute Unsettled Contracts involving the relevant Non-Clearing Participant, are transferred to other Clearing Participants or other necessary arrangements are made, the Designated Clearing Participant's right to act as an agent stipulated in Item (2) of Paragraph 9 of Article 24 shall be extinguished.

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
Section 2 Handling of the Clearing Participant's Commissioned Margin

(Article 30 Handling of Margin for Customers' Account)

1 In the event that the Unsettled Contracts pursuant to the commission by the Insolvent Clearing Participant's customers are transferred to other Clearing Participants<sup>\*1</sup> pursuant to the provisions of Article 28<sup>\*2</sup>, JSCC shall deem the Margin<sup>\*3</sup> for the customer's account, which has been deposited with JSCC by such Insolvent Clearing Participant in connection with the relevant customer, to be deposited with JSCC by the relevant Transferee Clearing Participant in the case of Insolvency<sup>\*4</sup> acting as an agent on the day on which the relevant Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency is implemented.

(\*1 each of such other Clearing Participants, to which the transfer is made, is hereinafter referred to as the "Transferee Clearing Participant in the case of Insolvency")

(\*2 hereinafter referred to as the "Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency")

(\*3 limited to the portion with respect to which the relevant customer or its Applicant has the right to claim a refund pursuant to the provisions of Article 24; the same applies hereinafter in the following Paragraph)

(\*4 in the case where the Transferee Trading Participant in the case of Insolvency prescribed by the Designated Market Operator is a Non-Clearing Participant, the relevant Transferee Trading Participant in the case of Insolvency and the Transferee Clearing Participant in the case of Insolvency which is its Designated Clearing Participant)

2 The amount deposited as the Clearing Participant's Commissioned Margin (Replaced), which is a part of the Margin for customers' account pertaining to the relevant customer and is deemed to have been deposited with JSCC pursuant to the provisions of the preceding Paragraph, shall be the lesser of the amounts set forth in the following Items:

(1) An amount equal to the sum of the amount of money and the Marked to Market Value of the securities deposited with the Insolvent Clearing Participant by the customer as the Customer Margin; or

(2) An amount equal to the Clearing Participant's Commissioned Margin (Replaced) deposited with JSCC by the Insolvent Clearing Participant, deducting the amount of expenses required for the conversion into cash by JSCC of the securities which had been deposited by the Insolvent Clearing Participant in lieu of cash as the Clearing Participant's Commissioned Margin (Replaced) pursuant to the provisions of the immediately following Article, and then apportioned pro-rata according to the amount equal to the sum of the amount of money and the Marked to Market Value of the securities deposited with such Insolvent Clearing Participant by each customer as the

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
Customer Margin.

(Article 31 Conversion into Cash of the Margin (Replaced), etc.)

- 1 In the event that a Designated Market Operator causes an Offsetting-Sale, Offsetting-Purchase or exercise of options to be implemented with respect to the Unsettled Contracts pursuant to the commission by the Insolvent Clearing Participant's customers, or causes the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency pursuant to the commission by the Insolvent Clearing Participant's customers to be implemented, JSCC may convert some or all of the securities deposited in lieu of cash as the Clearing Participant's Commissioned Margin (Replaced) into cash, using a method deemed appropriate by JSCC. In such event, an entrustment agreement shall be deemed to have been formed among the Insolvent Clearing Participant, the customer and JSCC.
- 2 When the preceding Paragraph applies, if the customer is a Broker and if it is an entity who is deemed by the Designated Market Operator as the customer whose Obligations Pertaining to Futures and Option Contracts owed to the Insolvent Clearing Participant have become immediately due and payable, or as the customer which is not appropriate for implementing the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency, JSCC may convert some or all of the securities deposited in lieu of cash as the Clearing Participant's Commissioned Margin (Replaced by Broker) into cash, using a method deemed appropriate by JSCC. In such event, an entrustment agreement shall be deemed to have been formed among the Insolvent Clearing Participant, the customer, its Applicant and JSCC.

(Article 32 Special Provisions Concerning the Handling of the Margin (Replaced), etc.)

- 1 In the event that JSCC has converted the securities into cash pursuant to the provisions of Paragraph 1 of the preceding Article, the Clearing Participant's Commissioned Margin (Replaced) shall be the sum of the amount of money and the securities, other than the securities subject to such conversion, which had been deposited with JSCC by the Insolvent Clearing Participant as the Clearing Participant's Commissioned Margin (Replaced), and the amount arising from such conversion, deducting the amount of expenses required for such conversion.
- 2 In the event that JSCC has converted the securities into cash pursuant to the provisions of Paragraph 2 of the preceding Article, the Clearing Participant's Commissioned Margin (Replaced by Broker) shall be the sum of the amount of money and the securities, other than the securities subject to such conversion, which had been deposited with JSCC by the Insolvent Clearing Participant as the Clearing Participant's Commissioned Margin (Replaced by Broker), and the amount arising from such conversion, deducting the amount of expenses required for such conversion.

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts

(Article 33 Special Provisions Concerning the Right to Claim a Refund of the Margin for Customers' Account)

- 1 The right of a customer to claim a refund of the Margin for customers' account, which is deemed to have been deposited with JSCC pursuant to the provisions of Paragraph 1 of Article 30, shall be exercised by the Transferee Clearing Participant in the case of Insolvency set forth in Paragraph 1 of Article 30 acting as an agent.
- 2 In the event that a Designated Market Operator causes an Offsetting-Sale, Offsetting-Purchase or exercise of options to be implemented with respect to the Unsettled Contracts pursuant to the commission by the Insolvent Clearing Participant's customers, or causes the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency pursuant to the commission by the Insolvent Clearing Participant's customers to be implemented, the right to claim a refund of the Margin for customers' account pertaining to the Insolvent Clearing Participant's customers\*<sup>1</sup> may be exercised directly against JSCC. In such event, if the Margin for customers' account pertaining to the relevant customers has been deposited as the Clearing Participant's Commissioned Margin (Replaced), the amount of such refund shall be limited to the lesser of the amounts set forth in the Items under Paragraph 2 of Article 30.

(\*<sup>1</sup> excluding any customer who has implemented the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency)

- 3 In the event that the Insolvent Clearing Participant's customer directly exercises the right to claim a refund of the Margin for customers' account against JSCC pursuant to the provisions of the preceding Paragraph, in accordance with the contract classification set forth in the following Items, JSCC shall cause such customer to notify JSCC of the matters deemed necessary by JSCC, after the day set forth in the applicable Item:

(1) JGB Futures Contract

The day on which an Offsetting-Sale, Offsetting-Purchase, Final Settlement or Settlement by Physical Delivery and Payment is implemented with respect to the Unsettled Contract pursuant to the commission by the relevant customer;

(2) Index Futures Contract

The day on which an Offsetting-Sale, Offsetting-Purchase or Final Settlement is implemented with respect to the Unsettled Contract pursuant to the commission by the relevant customer;

(3) Security Option Contract and Index Option Contract

The day on which an Offsetting-Purchase is implemented, or the Exercise Date, with respect to the Unsettled Contract pursuant to the commission by the relevant customer;  
and

(4) Option Contract on JGB Futures

## Reference Translation

### Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts

The day on which an Offsetting-Purchase is implemented, the day on which the assignment of exercised option is implemented, or the expiration date of the Exercise Period, with respect to the Unsettled Contract pursuant to the commission by the relevant customer.

- 4 When the preceding Paragraph applies, if JSCC receives a demand for a refund of the Margin deposited as the Clearing Participant's Commissioned Margin (Replaced) pertaining to the relevant customer, JSCC shall make the refund in the form of cash.

(Article 34 Special Provisions Concerning the Right to Claim a Refund of the Margin for Customers' Account Pertaining to Brokers)

- 1 In the event that a Designated Market Operator causes an Offsetting-Sale, Offsetting-Purchase or exercise of options to be implemented with respect to the Unsettled Contracts pursuant to the brokerage of the commission by an Applicant of the Insolvent Clearing Participant's customer, if the Broker is an entity who is deemed by the Designated Market Operator as the customer whose Obligations Pertaining to Futures and Option Contracts owed to the Insolvent Clearing Participant became immediately due and payable, or as the customer which is not appropriate for implementing the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency, the Applicant of the relevant Broker may, after the date prescribed in each of the Items under Paragraph 3 of the preceding Article, request JSCC's approval of the direct exercise against JSCC of the right to claim a refund of the Margin for customers' account, after notifying JSCC of the fact that the relevant Broker is an entity who is deemed by the Designated Market Operator as the customer whose Obligations Pertaining to Futures and Option Contracts owed to the Insolvent Clearing Participant became immediately due and payable, or as the customer which is not appropriate for implementing the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency and of the amount pertaining to the relevant Applicant's right to claim a refund.
- 2 When the preceding Paragraph applies, JSCC shall confirm the matters set forth in the relevant notification by requiring the Insolvent Clearing Participant to submit documents deemed necessary by JSCC.
- 3 After confirmation is made pursuant to the provisions of the preceding Paragraph, JSCC shall approve the direct exercise of the relevant right to claim a refund.
- 4 When Paragraph 1 applies, the amount relating to the right to claim a refund of the Margin\*<sup>1</sup> for customers' account pertaining to the relevant Applicant shall be limited to the lesser of the amounts set forth in the following Items:  
(\*<sup>1</sup> excluding the Margin deposited with JSCC as the direct deposit by the relevant Applicant)
  - (1) An amount equal to the sum of the amount of money and the Marked to Market Value\*<sup>1</sup>

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts of the securities which have been deposited by the Applicant of the customer with the customer as the Brokerage Margin or with the Insolvent Clearing Participant as the Customer Margin; or

(\*<sup>1</sup> referring to the value which is valued based on the market price on the day immediately preceding the day on which the Designated Market Operator implements the Suspension of Transactions, etc. due to Insolvency<sup>\*1-1</sup>; the same applies hereinafter in this Paragraph)

(\*<sup>1-1</sup> in the case where the applicable securities are U.S. Treasury Bonds/Notes/Bills, an amount equal to their market price, converted to Japanese yen at the telegraphic transfer spot buying rate per dollar in the Tokyo foreign exchange market on the day immediately preceding the day on which such Suspension of Transactions, etc. due to Insolvency is implemented)

(2) An amount equal to the sum of A) and B) below, apportioned pro-rata according to the amount equal to the sum of the amount of money and the Marked to Market Value of the securities deposited with or provided to the customer as the Brokerage Margin or Customer Margin by each Applicant of such customer:

A) An amount equal to the Clearing Participant's Commissioned Margin (Replaced) stipulated in Paragraph 1 of Article 32, apportioned pro-rata according to the amount<sup>\*1</sup> equal to the sum of the amount of money and the Marked to Market Value of the securities deposited with the Insolvent Clearing Participant as the Customer Margin by each customer; and

(\*<sup>1</sup> including the sum of the amount of money and the Marked to Market Value of the securities provided by the customer as the relevant Margin, during the period ending upon the deposit of such Margin by the relevant Insolvent Clearing Participant with JSCC)

B) The amount of the Clearing Participant's Commissioned Margin (Replaced by Broker) stipulated in Paragraph 2 of Article 32.

5 In the event that JSCC receives the claim for a refund set forth in the preceding Paragraph, JSCC shall make the refund in the form of cash, except for the directly-deposited Margin.

(Article 35 Refund, etc. of the Margin Pertaining to Transferred Position in the case of Insolvency)

A Transferee Clearing Participant in the case of Insolvency, when it intends to receive a refund of the Margin which is deemed to have been deposited with JSCC pursuant to the provisions of Paragraph 1 of Article 30, shall notify JSCC of the matters deemed necessary by JSCC.

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
Section 3 Handling of the Non-Clearing Participant's Commissioned Margin

(Article 36 Handling of the Margin for Customers' Account)

The provisions of Article 30 through the preceding Article shall apply *mutatis mutandis* to the handling of the Non-Clearing Participant's Commissioned Margin in the case where such Non-Clearing Participant becomes subject to the Suspension of Transactions, etc. due to Insolvency implemented by a Designated Market Operator. In such event, the phrase, "Article 28," shall be deemed to be "Article 29"; the phrase, "Insolvent Clearing Participant," shall be deemed to be "Non-Clearing Participant subject to the Suspension of Transactions, etc. due to Insolvency"; the phrase, "Clearing Participant's Commissioned Margin (Replaced)," shall be deemed to be "Non-Clearing Participant's Commissioned Margin (Replaced)"; the phrase, "Offsetting-Sale, Offsetting-Purchase or exercise of options," shall be deemed to be "commission of an Offsetting-Sale, Offsetting-Purchase or exercise of options"; the phrase, "among the Insolvent Clearing Participant, its customer and JSCC" shall be deemed to be "among the Insolvent Clearing Participant's Designated Clearing Participant, the Non-Clearing Participant subject to the Suspension of Transactions, etc. due to Insolvency, its customer and JSCC"; the phrase, "if the customer is a Broker, and if it is an entity who is deemed by the Designated Market Operator as a customer whose Obligations Pertaining to Futures and Option Contracts owed to the Insolvent Clearing Participant have become immediately due and payable, or as the customer which is not appropriate for the implementing the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency," shall be deemed to be "if the customer is a Broker, and if it is an entity who is deemed by the Designated Market Operator as a customer whose Obligations Pertaining to Futures and Option Contracts owed to the Insolvent Clearing Participant have become immediately due and payable"; the phrase, "Clearing Participant's Commissioned Margin (Replaced by Broker)" shall be deemed to be "Non-Clearing Participant's Commissioned Margin (Replaced by Broker)"; and the phrase, "among the Insolvent Clearing Participant, the customer, its Applicant and JSCC" shall be deemed to be "among the Insolvent Clearing Participant's Designated Clearing Participant, the Non-Clearing Participant subject to the Suspension of Transactions, etc. due to Insolvency, the customer, its Applicant and JSCC."

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
Section 4 Miscellaneous Clauses

(Article 37 Handling of Other Matters Relating to Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency, etc.)

In addition to the matters prescribed in Article 27 through the preceding Article, matters necessary for the Position Transfer in the case of Suspension of Transactions, etc. due to Insolvency shall be prescribed by JSCC on a case-by-case basis.

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
Chapter 4 Miscellaneous Provisions

(Article 38 Application to the Brokerage for Clearing of Securities, etc.)

With respect to the brokerage of the commission of the Brokerage for Clearing of Securities, etc. pertaining to Futures and Option Contracts, the Trading Participant commissioning the Brokerage for Clearing of Securities, etc. shall be deemed as the entity who conducts the brokerage of the relevant Futures and Option Contracts, and the provisions of Chapter 2 and Chapter 3 shall apply accordingly.

(Article 39 Determination of Necessary Matters Relating to the Margin and Handling of Unsettled Contracts, etc.)

In addition to the matters prescribed in these Rules, when necessary in connection with the Margin pertaining to Futures and Option Contracts and the handling of the Unsettled Contracts in the case of Suspension of Obligation Assumption due to Insolvency, etc., JSCC may prescribe rules concerning the required operations.

(Article 40 Authority to Make Amendments)

Amendments to these Rules shall be made by resolutions adopted at the meetings of the board of directors; provided, however, that the foregoing shall not apply when the amendments are not material.

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
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

- 1 These revised Rules shall come into effect on the day set by JSCC\*.
- 2 The Marked to Market Value or the market price, in the event that such market price before the Effective Date is to be used for the calculation of the substituting price, of the securities registered by the Japan Securities Dealers Association on the day immediately preceding the day on which these revised Rules come into effect\*<sup>1</sup> shall be, notwithstanding the amended provisions of Paragraph 2 of the *Appendix*, the last selling/buying price at 3 P.M. published by the Japan Securities Dealers Association.  
(\*<sup>1</sup> hereinafter referred to as the "Effective Date")
- 3 With respect to the application of the provisions of Paragraph 3 of the *Appendix* relating to the issues\*<sup>1</sup> registered by the Japan Securities Dealers Association on the day immediately preceding the Effective Date, the selling/buying volume of the relevant issue in the OTC market operated by the Japan Securities Dealers Association shall be deemed to constitute the selling/buying volume of the relevant issue in Jasdac Securities Exchange, Inc.  
(\*<sup>1</sup> limited to the issues listed on Jasdac Securities Exchange, Inc. on the Effective Date)  
(\*Note) The date set by JSCC in Paragraph 1 is December 13, 2004.

Supplementary Provisions

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

Supplementary Provisions

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

Supplementary Provisions

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts

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 September 28, 2009.

Supplementary Provisions

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

(\*Note) The "day prescribed 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 February 28, 2011; provided, however, that the revised provisions of (\*4) of Paragraph 2 of the *Appendix* shall come into effect on January 1, 2011.

Supplementary Provisions

These revised Rules shall come into effect on November 21, 2011.

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
Supplementary Provisions

These revised Rules shall come into effect on January 30, 2012.

Supplementary Provisions

These revised Rules shall come into effect on January 4, 2013.

Supplementary Provisions

These revised Rules shall come into effect on February 12, 2013.

Supplementary Provisions

These revised Rules shall come into effect on July 16, 2013.

Supplementary Provisions

These revised Rules shall come into effect on September 24, 2013.

Supplementary Provisions

These revised Rules shall come into effect on January 10, 2014.

Supplementary Provisions

1 These revised Business Rules shall come into effect on March 24, 2014.

2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than March 24, 2014.

Supplementary Provisions

These revised Rules shall come into effect on July 22, 2014.

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts  
Supplementary Provisions

These revised Rules shall come into effect on September 22, 2014.

Supplementary Provisions

These revised Rules shall come into effect on January 19, 2015.

Supplementary Provisions

These revised Rules shall come into effect on July 6, 2015.

Supplementary Provisions

- 1 These revised Rules shall come into effect on September 24, 2015.
- 2 Notwithstanding the provisions of the immediately preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Rules shall come into effect on the day set by JSCC which is not earlier than September 24, 2015.

Supplementary Provisions

- 1 These revised Business Rules shall come into effect on October 13, 2015.
- 2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than October 13, 2015.

Supplementary Provisions

These revised Rules shall come into effect on January 18, 2016.

Supplementary Provisions

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts

These revised Rules shall come into effect on July 4, 2016.

Supplementary Provisions

These revised Rules shall come into effect on July 19, 2016.

Supplementary Provisions

These revised Rules shall come into effect on January 10, 2017.

<Appendix> Table Concerning Types of Securities Deposited in lieu of Cash and their Substituting Prices, etc.

1 The substituting price of the securities to be deposited in lieu of cash as the Margin, Customer Margin or Brokerage Margin shall be the amount\*<sup>1</sup> equal to their market price as of the day\*<sup>2</sup> which is two days before the day of delivery or the day of deposit with respect to the relevant securities, multiplied by a rate prescribed by JSCC; provided, however, that JSCC may change the substituting price when deemed particularly necessary by JSCC, due to significant fluctuations in the market, etc.

(\*<sup>1-1</sup> in the case where the applicable securities are U.S. Treasury Bonds/Notes/Bills, an amount equal to their market price, multiplied by a rate prescribed by JSCC, converted to Japanese yen at the telegraphic transfer spot buying rate per dollar in the Tokyo foreign exchange market on the day which is two days before the day on which the Margin is deposited)

(\*<sup>1-2</sup> in the case of the substituting price of the securities to be deposited in lieu of cash as Customer Margin or Brokerage Margin, an amount not in excess of the amount resulting from the multiplication by the rate prescribed by JSCC)

(\*<sup>2</sup> if such day falls on a Non-business Day, it shall be the immediately preceding business day)

2 The types of securities, their market prices and the rates prescribed by JSCC referenced in the preceding Paragraph shall be as follows:

Type of Securities		Market Price	The rate by which the market price is to be multiplied
Japanese Government Bonds	Whose Reference Statistical Prices for OTC Bond Transactions are published by the Japan Securities Dealers Association	Average of the relevant Reference Statistical Prices for OTC Bond Transactions	(1) Interest-bearing government bond and discount government bond (excluding government bond with floating rate and STRIPs) a Years to maturity of less than 1 year 99% b Years to maturity over 1 year and less than 5 years 98% c Years to maturity over 5 year and less than 10 years 97% d Years to maturity over 10year and less than 20 years 96% e Years to maturity over 20 year and less than 30 years 94% f Years to maturity over 30 years 93%
	Which are listed on a domestic Financial Instruments Exchange, but whose Reference Statistical Prices for OTC Bond Transactions are not published	The closing price (* 1) at the Financial Instruments Exchange (* 2)	(2) Government bond with floating rate a Years to maturity of less than 1 year 99% b Years to maturity over 1 year and less than 5 years 98% c Years to maturity over 5 year and less than 10 years 98% d Years to maturity over 10 year and less than 20 years 97% (3) STRIPs a Years to maturity of less than 1 year 98%

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts

			b Years to maturity over 1 year and less than 5 years 98% c Years to maturity over 5 year and less than 10 years 97% d Years to maturity over 10year and less than 20 years 96% e Years to maturity over 20 year and less than 30 years 93% f Years to maturity over 30 years 92%
Bonds guaranteed by the Japanese Government  Yen denominated bonds which are the bonds stipulated in Article 2-11 of the Enforcement Ordinance of the Financial Instruments and Exchange Act (* 3)	Whose Reference Statistical Prices for OTC Bond Transactions are published by the Japan Securities Dealers Association	Average of the relevant Reference Statistical Prices for OTC Bond Transactions	(1) Years to maturity of less than 1 year 98% (2) Years to maturity over 1 year and less than 5 years 97% (3) Years to maturity over 5 year and less than 10 years 96% (4) Years to maturity over 10year and less than 20 years 95% (5) Years to maturity over 20 year and less than 30 years 93% (6) Years to maturity over 30 years 92%
	Which are listed on a domestic Financial Instruments Exchange, but whose Reference Statistical Prices for OTC Bond Transactions are not published	The closing price (* 1) in the Financial Instruments Exchange (* 2)	
U.S. Treasury Bonds/Notes/Bills		The last quote in the New York market on the immediately preceding day	(1) Years to maturity of less than 1 year 87% (2) Years to maturity over 1 year and less than 5 years 87% (3) Years to maturity over 5 year and less than 10 years 87% (4) Years to maturity over 10year and less than 20 years 87% (5) Years to maturity over 20 year and less than 30 years 87% (6) Years to maturity over 30 years 87%
Municipal bonds (* 3)	Whose Reference Statistical Prices for OTC Bond Transactions are published by the Japan Securities Dealers Association	Average of the relevant Reference Statistical Prices for OTC Bond Transactions	(1) Years to maturity of less than 1 year 98% (2) Years to maturity over 1 year and less than 5 years 97% (3) Years to maturity over 5 year and less than 10 years 96% (4) Years to maturity over 10year and less than 20 years 95% (5) Years to maturity over 20 year and less than 30 years 93% (6) Years to maturity over 30 years 92%

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts

	Which are listed on a domestic Financial Instruments Exchange, but whose Reference Statistical Prices for OTC Bond Transactions are not published	The closing price (* 1) in the Financial Instruments Exchange (* 2)	
Special bonds (excluding bonds guaranteed by the Japanese Government)(* 4)	Whose Reference Statistical Prices for OTC Bond Transactions are published by the Japan Securities Dealers Association	Average of the relevant Reference Statistical Prices for OTC Bond Transactions	(1) Years to maturity of less than 1 year 97% (2) Years to maturity over 1 year and less than 5 years 97% (3) Years to maturity over 5 year and less than 10 years 96% (4) Years to maturity over 10year and less than 20 years 95% (5) Years to maturity over 20 year and less than 30 years 92% (6) Years to maturity over 30 years 92%
Corporate Bonds (excluding bonds with stock acquisition rights and Exchangeable Corporate Bonds) (* 3) (* 4)	Which are listed on a domestic Financial Instruments Exchange, but whose Reference Statistical Prices for OTC Bond Transactions are not published	The closing price (* 1) in the Financial Instruments Exchange (* 2)	
Yen-denominated bonds issued by foreign juridical persons ( <i>SAMURAI Bonds</i> ) (excluding Yen denominated bonds which are the bonds stipulated in Article 2-11 of the Enforcement Ordinance	Whose Reference Statistical Prices for OTC Bond Transactions are published by the Japan Securities Dealers Association	Average of the relevant Reference Statistical Prices for OTC Bond Transactions	(1) Years to maturity of less than 1 year 85% (2) Years to maturity over 1 year and less than 5 years 85% (3) Years to maturity over 5 year and less than 10 years 84% (4) Years to maturity over 10year and less than 20 years 83% (5) Years to maturity over 20 year and less than 30 years 80% (6) Years to maturity over 30 years 80%

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts

of the Financial Instruments and Exchange Act, Convertible Bonds and Exchangeable Corporate Bonds (* 3) (* 4)	Which are listed on a domestic Financial Instruments Exchange, but whose Reference Statistical Prices for OTC Bond Transactions are not published	The closing price (* 1) in the Financial Instruments Exchange (* 2)	
Beneficiary securities of public and corporate bond investment trusts	Whose market prices on the preceding day are published by the Investment Trusts Association Japan	Applicable market price	85/100
Convertible Bonds (* 3) (* 5) Exchangeable Corporate Bonds (* 3)	Which are listed on a domestic Financial Instruments Exchange	The closing price (* 1) in the Financial Instruments Exchange (* 2)	80/100
Stocks  Preferred equity capital contribution securities  Depositary receipts for foreign stocks  Beneficiary securities of foreign investment trusts  Foreign investment securities  Beneficiary securities of beneficiary securities issuing trust  Beneficiary securities of foreign beneficiary	Which are listed on a domestic Financial Instruments Exchange	The closing price (* 1) in the Financial Instruments Exchange(* 2)	70/100

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Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts

securities issuing trust			
Beneficiary securities of investment trusts (excluding beneficiary securities of public and corporate bond investment trusts)	Which are listed on a domestic Financial Instruments Exchange	The closing price (* 1) in the Financial Instruments Exchange (* 2)	
	Investment securities Whose market prices on the preceding day are published by the Investment Trusts Association Japan	Applicable market price	

(\* 1) With respect to an issue that is listed on multiple Financial Instruments Exchanges, referring to the Financial Instruments Exchange selected in accordance with the order of priority prescribed by JSCC.

(\* 2) In the case where a final quote is posted in the applicable Financial Instruments Exchange, the closing price refers to such final quote.

(\* 3) Limited to those with respect to which an underwriting contract is executed by a Financial Instruments Business Operator in connection with their issuance.

(\* 4) With respect to Special bonds\*<sup>1</sup>, Corporate Bonds\*<sup>2</sup> and Yen-denominated bonds issued by foreign juridical persons (*SAMURAI Bonds*) \*<sup>3</sup>, limited to those deemed appropriate by JSCC taking the issuing company's creditworthiness and other circumstances into account(e.g. all ratings obtained from Eligible Rating Agencies\*<sup>4</sup> are A or above, etc.).

(\*<sup>1</sup> excluding bonds guaranteed by the Japanese Government)

(\*<sup>2</sup> excluding bonds with stock acquisition rights and Exchangeable Corporate Bonds)

(\*<sup>3</sup> excluding Yen denominated bonds which are the bonds stipulated in Article 2-11 of the Enforcement Ordinance of the Financial Instruments and Exchange Act, Convertible Bonds and Exchangeable Corporate Bonds)

(\*<sup>4</sup> referring to the Credit Rating Agencies stipulated in Paragraph 36 of Article 2 of the Act and the Specified Related Corporations stipulated in Paragraph 2 of Article 116-3 of the Ordinance of Cabinet Office Concerning Financial Instruments Business, etc. (Ordinance of Cabinet Office No. 52 of 2007).)

(\* 5) With respect to Convertible Bonds, limited to those issued by the corporations whose stocks are listed on domestic Financial Instruments Exchanges.

3 With respect to the order of priority prescribed by JSCC referenced in the provisions of the preceding Paragraph, the Financial Instruments

Reference Translation

Exhibit A-5 - Rules on Margins, etc. for Futures and Option Contracts

Exchange with the highest selling/buying volume\*<sup>1</sup> of the relevant issue among the Financial Instruments Exchanges: during July through December of the preceding year in the case where the day which is two days before the day of delivery or the day of deposit occurs during February through July; or during January through June in the case where the day which is two days before the day of delivery or the day of deposit occurs during August through January in the following year, shall be in the first priority position, and the subordinating priority shall be in accordance with the order of the code\*<sup>2</sup> of the Exchanges, Industry Groups, etc.

(\*<sup>1</sup> limited to the selling/buying volume pertaining to the Regular Transactions\*<sup>1-1</sup> during trading sessions)

(\*<sup>1-1</sup> referring to the Regular Transactions prescribed by each Financial Instruments Exchange)

(\*<sup>2</sup> referring to the code prescribed by the Securities Identification Code Committee)

=End=

# Rules on Required Amount of Clearing Fund



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This English translation of the Rules has been prepared solely for reference purposes and shall not have any binding force. The original Japanese text shall be definitive when construing or interpreting the meaning of any provision.

**Rules on Required Amount of Clearing Fund**

**(In effect as of August 10, 2016)**

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**<Appendix> *Table Concerning Calculation of Required Amount of Clearing Fund***

(Article 1 Purpose)

These Rules set forth the required amount of clearing fund in accordance with the provisions of Article 16 of the Business Rules.

(Article 2 Required Amount of Clearing Fund)

- 1 The required amount of Securities, Futures and Option Clearing Fund in accordance with the provisions of Article 16 of the Business Rules shall be the sum total of the required amount of clearing fund in respect of Securities Clearing Qualification, JGB Futures Clearing Qualification or Index Futures Clearing Qualification held by the relevant Clearing Participant and the required amount of FX Clearing Fund shall be the required amount of clearing fund in respect of FX Clearing Qualification held by the relevant Clearing Participant.
- 2 The required amount of clearing fund in respect of each category of Clearing Qualification, as referred to in the preceding Paragraph, shall be determined in accordance with *Appendix "Table Concerning Calculation of Required Amount of Clearing Fund."*
- 3 Notwithstanding the provisions of Paragraph 1, the required amount of clearing fund that is to be deposited in respect of each category of Clearing Qualification by an entity that has newly obtained Clearing Qualification shall be the amount determined by JSCC, on a case-by-case basis taking into account such information as (i) the scale of the business of the relevant applicant for Clearing Qualification, (ii) its trading record and trading prospects, and (iii) the amount of money obtained by dividing the sum total of the required amount of clearing fund in respect of Clearing Qualification for each Clearing Participant with the same Clearing Qualification as that of the date on which applications for Clearing Qualification were submitted by the number of such Clearing Participants, and such required amount of clearing fund shall be applied for the period JSCC deems necessary.
- 4 JSCC shall calculate the required amount of clearing fund of each Clearing Participant in respect of Securities Clearing Qualification and FX Clearing Qualification monthly as of the end of the previous month as a base date for calculation of the required amount of clearing fund for securities and FX and notify each Clearing Participant thereof on the fourth day<sup>\*1</sup> of the month.  
(\*1 excluding Non-business Days; the same applies hereinafter when counting the number of days)
- 5 The required amount of clearing fund of each Clearing Participant related to Securities Clearing Qualification and FX Clearing Qualification calculated in accordance with the preceding paragraph shall be applied as from the fifth day of the month.
- 6 JSCC shall calculate the required amount of clearing fund of each Clearing Participant in respect of JGB Futures Clearing Qualification and Index Futures Clearing Qualification as of the day that is seven (7) days preceding the last business day of each week (inclusive)<sup>\*1</sup> as a base date for calculation of required amount of clearing fund for futures and option and

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Rules on Required Amount of Clearing Fund

notify each Clearing Participant thereof on the fifth day from and after the base date for calculation of the required amount of clearing fund for futures and option (inclusive).

(\*1 excluding Non-business Days)

- 7 The required amount of clearing fund for each Clearing Participant related to JGB Futures Clearing Qualification and Index Futures Clearing Qualification obtained as per the provisions of the preceding Paragraph shall start to apply from the day that is sixth day from and after the base date for calculation of the required amount of clearing fund for futures and option (inclusive).

(Article 3 Ad Hoc Change of Required Amount of Clearing Fund)

Notwithstanding the provisions of the preceding Article, in the case where a Clearing Participant merges, a Clearing Participant newly becomes a Designated Clearing Participant of a Non-Clearing Participant or JSCC otherwise determines it necessary to do so, the required amount of Securities, Futures and Option Clearing Fund or the required amount of FX Clearing Fund may be changed on an ad hoc basis.

Rules on Required Amount of Clearing Fund  
Supplementary Provisions

- 1 These Rules shall come into effect on January 10, 2003.
- 2 With respect to the calculation of the base amount of domestic stock, etc. for the period ending on or before January 10, 2003, the words “Contracts for Clearing” in the *Appendix* shall be deemed to be “buying/selling”.
- 3 Notwithstanding the provisions of Paragraph 2 of Article 2, the required amount of clearing fund for securities transactions applied to an entity that obtains Principal Clearing Qualification on January 14, 2003, shall be in accordance with the provisions of Paragraph 1 of Article 2.

Supplementary Provisions

- 1 These revised Rules shall come into effect on February 2, 2004.
- 2 Notwithstanding the provisions of Paragraph 3 of Article 2, the required amount of clearing fund for Share Option Contracts, JGB Futures Contracts or Stock Price Index Futures Contracts applied to an entity that obtains Share Option Clearing Qualification, JGB Futures Clearing Qualification or Stock Price Index Futures Clearing Qualification\*<sup>1</sup> on February 2, 2004, shall be in accordance with the provisions of Paragraph 1 of Article 2.  
(\*<sup>1</sup> limited to Principal Clearing Qualification in respect of each category of Clearing Qualification)

Supplementary Provisions

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

Supplementary Provisions

These revised Rules shall come into effect on July 3, 2006.

Supplementary Provisions

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

Supplementary Provisions

These revised Rules shall come into effect on July 7, 2008.

Supplementary Provisions

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

Supplementary Provisions

These revised Rules shall come into effect on December 1, 2012.

Supplementary Provisions

- 1 These revised Rules shall come into effect on July 16, 2013 except the revised provisions of Article 2 and Appendix 1 which shall come into effect on July 12, 2013.
- 2 The required amount of clearing fund in respect of JGB Futures Clearing Qualification, Index Futures Clearing Qualification or FX Clearing Qualification applicable until February 6, 2014 shall be calculated in accordance with Appendix 1, wherein the unsettled contracts between Osaka Securities Exchange Co., Ltd.<sup>\*1</sup> and a clearing participant of OSE, the payment amount of differences, margins deposited with OSE by a clearing participant of OSE and required amount of margins are deemed as the Unsettled Contracts between JSCC and a Clearing Participant, the payment amount of differences, Margins deposited with JSCC by a Clearing Participant and required amount of Margins, respectively.  
(\*1 hereinafter referred to as "OSE")

Supplementary Provisions

These revised Rules shall come into effect on September 9, 2013.

Supplementary Provisions

These revised Rules shall come into effect on January 6, 2014.

Supplementary Provisions

These revised Rules shall come into effect on February 28, 2014.

Supplementary Provisions

- 1 These revised Business Rules shall come into effect on March 24, 2014.
- 2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC or other institutions, which are necessary to

conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than March 24, 2014.

Supplementary Provisions

These revised Rules shall come into effect on September 24, 2015.

Supplementary Provisions

- 1 These revised Business Rules shall come into effect on October 13, 2015.
- 2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Business Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business Rules shall come into effect on the day set by JSCC which is not earlier than October 13, 2015.

Supplementary Provisions

- 1 These revised Rules shall come into effect on January 8, 2016.
- 2 Notwithstanding the provisions of the preceding Paragraph, in the case where JSCC deems it inappropriate for the revised Rules to apply, due to an occurrence of a system failure to the systems set up by JSCC or other institutions, which are necessary to conduct the settlement of Contracts for Clearing between JSCC and a Clearing Participant, or some other unavoidable reasons, the revised Business shall come into effect on the day set by JSCC which is not earlier than January 8, 2016.

Supplementary Provisions

These revised Rules shall come into effect on August 10, 2016, and shall apply from the required amount of clearing fund for each Clearing Participant related to JGB Futures Clearing Qualification and Index Futures Clearing Qualification to be calculated on this date as the base date for calculation of the required amount of clearing fund for futures and option.

## &lt;Appendix&gt; Table Concerning Calculation of Required Amount of Clearing Fund

1 Required Amount of Clearing Fund for Securities Clearing Qualification<sup>\*1</sup>

(<sup>\*1</sup> hereinafter referred to as "Required Amount of Clearing Fund for Securities Clearing")

The Required Amount of Clearing Fund for Securities Clearing shall be the amount calculated in accordance with the formula set forth below; provided, however, that if such amount is less than 10 million yen, the Required Amount of Clearing Fund for Securities Clearing shall be 10 million yen — the terms used in the formula shall have the meanings set forth in A) through C) below:

Required Amount of Clearing Fund for Securities Clearing

= Aggregate Securities Clearing Fund

x Individual Company Prorated Base Initial Margin Requirement

/ Total Prorated Base Initial Margin Requirement

A) Aggregate Securities Clearing Fund means the average of daily largest risk amount exceeding collateral during the calculation period<sup>\*1</sup>

(<sup>\*1</sup> referring to a period of 6 months preceding the base date for calculation of required amount of clearing fund for securities and FX; the same applies in Paragraph 4)

(Note 1) Daily largest risk amount exceeding collateral means the total of the Risk Amounts Exceeding Collateral of the top 2 Clearing Participants in terms of the Clearing Participant's Risk Amount Exceeding Collateral<sup>\*1</sup>

(<sup>\*1</sup> or, if any Affiliated Company<sup>\*1-1</sup> also is a Clearing Participant, the sum of Risk Amount Exceeding Collateral of the Clearing Participant and such Affiliated Company)

(<sup>\*1-1</sup> referring to subsidiary or affiliate, or the parent company of such Clearing Participant, or any subsidiary or affiliate of the parent company)

(Note 1-1) Risk Amount Exceeding Collateral means the amount obtained by subtracting the required amount of initial margin<sup>\*1</sup> of the relevant Clearing Participant calculated in accordance with the provisions of Article 15-2 of the Business Rules on the day preceding the date on which the Risk Amount Exceeding Collateral is calculated from the loss expected to arise from the Unsettled Contracts of the Clearing Participant under the stress scenario<sup>\*2</sup>.

(<sup>\*1</sup> or, if the required amount of initial margin (the intraday amount) is calculated pursuant to the provisions of Article 15-3 of the Business Rules on the day on which the Risk Amount Exceeding Collateral is calculated and the amount obtained by subtracting the required amount of initial margin on the day preceding the date on which the Risk Amount Exceeding Collateral is

Rules on Required Amount of Clearing Fund

calculated from the required amount of initial margin (the intraday amount) so calculated exceeds 30 million yen, then the required amount of initial margin (the intraday amount))

(\*<sup>2</sup> referring to a combination of price fluctuations prescribed by JSCC as an extreme but plausible market condition)

B) Individual Company Prorated Base Initial Margin Requirement means the daily average of the required amount of initial margin for Securities Clearing Qualification of the relevant Clearing Participant\*<sup>1</sup> during the month in which the base date for calculation of required amount of clearing fund for securities and FX belongs.

(\*<sup>1</sup> limited to the required amount calculated in accordance with the provisions of Article 15-2 of the Business Rules)

C) Total Prorated Base Initial Margin Requirement means the daily average of the aggregated required amount of initial margin for Securities Clearing Qualification\*<sup>1</sup> of all Clearing Participants during the month in which the base date for calculation of required amount of clearing fund for securities and FX belongs.

(\*<sup>1</sup> limited to the required amount calculated in accordance with the provisions of Article 15-2)

2 Required Amount of Clearing Fund for JGB Futures Clearing Qualification\*<sup>1</sup>

(\*<sup>1</sup> hereinafter referred to as "Required Amount of Clearing Fund for JGB Futures")

Required Amount of Clearing Fund for JGB Futures shall be the amount calculated in accordance with the formula set forth below; provided, however, that if such amount is less than 10 million yen, Required Amount of Clearing Fund for JGB Futures shall be 10 million yen — the terms used in the formula shall have the meanings set forth in A) through C) below.

Required Amount of Clearing Fund for JGB Futures

= Period Largest Base PML Amount<sub>JGB</sub>

x Individual Company Prorated Base IM Amount<sub>JGB</sub>

/ Total Prorated Base IM Amounts<sub>JGB</sub>

A) Period Largest Base PML Amount<sub>JGB</sub> means the largest amount during the Calculation Period\*<sup>1</sup> of Daily Largest Base PML Amount<sub>JGB</sub>.

(\*<sup>1</sup> meaning six (6) months period preceding the base date for calculation of required amount of clearing fund for futures and option; the same applies in the following

Paragraph)

(Note 1) Daily Largest Base PML Amount<sub>JGB</sub> refers to the largest of the Largest Base PML Amounts<sub>JGB</sub> per Stress Scenario on each day.

(Note 1-1) Largest Base PML Amount<sub>JGB</sub> per Stress Scenario refers to the total sum of Base PML Amounts<sub>JGB</sub> of the Clearing Participant<sup>\*1</sup> whose Base PML Amount<sub>JGB</sub> becomes the largest in each stress scenario and Base PML Amounts<sub>JGB</sub> in such stress scenario of five (5) Clearing Participants with the lowest amounts of net worth<sup>\*2</sup>.

(\*<sup>1</sup> if any subsidiary or affiliate, or the parent company of such Clearing Participant, or any subsidiary or affiliate of the parent company (“Affiliated Company”) also is a Clearing Participant, the sum of Base PML Amounts<sub>JGB</sub> of the Clearing Participant and such Affiliated Company)

(\*<sup>2</sup> in the case of a Registered Financial Institution and a Securities Finance Company, the amount of its net assets; the same applies hereinafter in this Appendix)

(Note 1-1-1) The stress scenario refers to a combination of price fluctuation and volatility variation prescribed by JSCC as extreme but plausible market condition; the same applies hereinafter in this Appendix.

(Note 1-1-2) Base PML Amount<sub>JGB</sub> shall be amount calculated in accordance with the following formula; the terms used in the formula shall have the meanings set forth in (a) through (c) below.

Base PML Amount<sub>JGB</sub>

= PML Amount<sub>JGB</sub> – IM Amount x PML Amount<sub>JGB</sub> / PML Amount

(a) PML Amount<sub>JGB</sub> refers to PML Amount related to Contracts Subject to Clearing in relation to JGB Futures Clearing Qualification; the same applies hereinafter in this Appendix.

(b) IM Amount means the sum total of: the amount of cash and the substituting price<sup>\*1</sup> of the securities multiplied by the rate prescribed in Paragraph 2 of the Appendix to the Rules on Margins, etc. for Futures and Option Contracts<sup>\*2</sup> which are deposited with JSCC as Margins for Futures and Option Contracts for the proprietary account by each Clearing Participant on the day on which the PML Amount is calculated; and the amount notified by the Clearing Participant to JSCC in accordance with the provisions of Paragraph 1 of Article 25 of the said Rules on the day immediately preceding the date of PML calculation. The same applies in this Appendix.

(\*<sup>1</sup>referring to the latest market price available on the day on which the PML Amount is calculated)

(\*<sup>2</sup>in the case where the applicable securities are U.S. Treasury Bonds/Notes/Bills, an amount equal to their market price multiplied by a rate prescribed in the said Paragraph, converted to Japanese yen at the telegraphic transfer spot buying rate per dollar in the Tokyo foreign exchange market on the day immediately preceding

the day on which the calculation is made)

(c) PML Amount means the amount of loss arising from the Unsettled Contracts<sup>\*1</sup> of each Clearing Participant under the stress scenario added by the amount to be received or paid of the amount of differences concerning the Futures and Option Contracts of each such Clearing Participant. The same applies in this Appendix.

(\*1 excluding the Cross Margined JGB Futures Cleared Contracts at the time of calculation)

B) Individual Company Prorated Base IM Amount<sub>JGB</sub> means the average of the amount required for the Margin<sup>\*1</sup> of each Clearing Participant in relation to JGB Futures Clearing Qualification on each Trading Day during the one month period preceding the base date for calculation of required amount of clearing fund for futures and option.

(\*1referring to the total sum of the amount required for the Margin for the proprietary account notified by JSCC to each Clearing Participant in accordance with the provisions of Article 24-2 of the Rules on Margins, etc. for Futures and Option Contracts and the amount notified by each Clearing Participant to JSCC in accordance with the provisions of Paragraph 1 of Article 25 of the said Rules, multiplied by the ratio of PML Amount<sub>JGB</sub> to PML Amount of such Clearing Participant on the relevant day)

C) Total Prorated Base IM Amounts<sub>JGB</sub> means the sum total of the Individual Company Prorated Base IM Amounts<sub>JGB</sub> set forth in B) above of all the JGB Futures Clearing Participants.

### 3 Required Amount of Clearing Fund for Index Futures Clearing Qualification<sup>\*1</sup>

(\*1 hereinafter referred to as the "Required Amount of Clearing Fund for Index Futures")

Required Amount of Clearing Fund for Index Futures shall be the amount calculated in accordance with the formula set forth below; provided, however, that if such amount is less than 10 million yen, Required Amount of Clearing Fund for Index Futures shall be 10 million yen — the terms used in the formula shall have the meanings set forth in A) through C) below.

Required Amount of Clearing Fund for Index Futures

= Period Largest Base PML Amount<sub>IDX</sub>

x Individual Company Prorated Base IM Amount<sub>IDX</sub>

/ Total Prorated Base IM Amounts<sub>IDX</sub>

A) Period Largest Base PML Amount<sub>IDX</sub> means the largest amount during the Calculation Period of Daily Largest Base PML Amount<sub>IDX</sub>.

(Note 1) Daily Largest Base PML Amount<sub>IDX</sub> refers to the largest of the Largest Base PML Amounts<sub>IDX</sub> per Stress Scenario on each day.

## Rules on Required Amount of Clearing Fund

(\*<sup>1</sup> if any subsidiary or affiliate, or the parent company of such Clearing Participant, or any subsidiary or affiliate of the parent company (“Affiliated Company”) also is a Clearing Participant, the sum of Base PML Amounts<sub>IDX</sub> of the Clearing Participant and such Affiliated Company)

(Note 1-1) Largest Base PML Amount<sub>IDX</sub> per Stress Scenario refers to the total sum of Base PML Amounts<sub>IDX</sub> of the Clearing Participant whose Base PML Amount<sub>IDX</sub> becomes the largest in each stress scenario and Base PML Amounts<sub>IDX</sub> in such stress scenario of five (5) Clearing Participants with the lowest amounts of net worth.

(Note 1-1-1) Base PML Amount<sub>IDX</sub> shall be amount calculated in accordance with the following formula, wherein PML Amount<sub>IDX</sub> refers to the PML Amount related to Contracts Subject to Clearing in relation to Index Futures Clearing Qualification \*<sup>1</sup>

(\*<sup>1</sup>the same applies hereinafter in this Appendix);

Base PML Amount<sub>IDX</sub>

= PML Amount<sub>IDX</sub> – IM Amount x PML Amount<sub>IDX</sub> / PML Amount

B) Individual Company Prorated Base IM Amount<sub>IDX</sub> means the average of the amount required for the Margin\*<sup>1</sup> of each Clearing Participant in relation to Index Futures Clearing Qualification on each Trading Day during the one month period preceding the base date for calculation of required amount of clearing fund for futures and option.

(\*<sup>1</sup>referring to the total sum of the amount required for the Margin for the proprietary account notified by JSCC to each Clearing Participant in accordance with the provisions of Article 24-2 of the Rules on Margins, etc. for Futures and Option Contracts and the amount notified by each Clearing Participant to JSCC in accordance with the provisions of Paragraph 1 of Article 25 of the said Rules, multiplied by the ratio of PML Amount<sub>IDX</sub> to PML Amount of such Clearing Participant on the relevant day)

C) Total Prorated Base IM Amounts<sub>IDX</sub> means the sum total of the Individual Company Prorated Base IM Amounts<sub>IDX</sub> set forth in B) above of all Index Futures Clearing Participants.

#### 4 Required Amount of Clearing Fund for FX Clearing Qualification\*<sup>1</sup>

(\*<sup>1</sup> hereinafter referred to as the “Required Amount of FX Clearing Fund”)

Required Amount of FX Clearing Fund shall be the amount calculated in accordance with the formula set forth below; provided, however, that if such amount is not equal to the integral multiple of 1,000,000 yen, it shall be the integral multiple of 1,000,000 yen exceeding such amount which is the smallest. — the terms used in the formula shall have the meanings set forth in A) through C) below.

Required Amount of FX Clearing Fund

= Period Largest Base PML Amount<sub>FX</sub>

x Individual Company Prorated Base IM Amount<sub>FX</sub>  
/ Total Prorated Base IM Amounts<sub>FX</sub>

A) Period Largest Base PML Amount<sub>FX</sub> means the largest of the Daily PML Base Amount during the Calculation Period.

(Note 1) Daily PML Base Amount means the smallest amount which can cover 99.74% of the amount of expected losses of the top two companies on each day during the Expected Price Fluctuation Reference Period.

(Note 1-1) Expected Price Fluctuation Reference Period means the past twenty years from a certain Trading Day.

(Note 1-2) The amount of expected losses of the top two companies means the total sum of the Daily Expected Loss Amounts of two companies whose Daily Expected Loss Amount on each day during the Expected Price Fluctuation Reference Period ranked top two.

(Note 1-2-1) Daily Expected Loss Amount means, on each day during the Expected Price Fluctuation Reference Period, the amount equal to valuation loss<sup>\*1</sup> of each FX Clearing Participant arising in the event of Expected Price Fluctuation, less Deposited Amount of Margins of Exchange FX Contracts.

(\*1referring to the payment amount of such FX Clearing Participant among the total sum of the differences<sup>\*1-1</sup> arising from the Positions held by such FX Clearing Participants on such Trading Day)

(\*1-1referring to the money prescribed in Article 73-34, 73-35 and 73-37 of the Business Rules)

(Note 1-2-1-1) Expected Price Fluctuation means the fluctuation range of each Financial Index obtained by multiplying the Settlement Price of respective Financial Index on each day during the Expected Price Fluctuation Reference Period by the three-day volatility for each such Financial Index<sup>\*1</sup>

(\*1referring to the differences between the Settlement Price for each Financial Index on each such day and the Settlement Price for each Financial Index on the day that is three Trading Days prior to such day, divided by the Settlement Price for the Financial Index on the day that is three Trading Days prior to such day)

(Note 1-2-1-2) Deposited Amount of Margins of Exchange FX Contracts means total sum of the amount of cash deposited with JSCC by such FX Clearing Participant as Margin for Exchange FX Contracts for its proprietary account on such Trading Day, and the required amount of Margins for customer accounts and those pertaining to the Brokerage for Clearing of Securities, etc. notified to JSCC by the FX Clearing Participant on such Trading Day in accordance with the provisions of Paragraph 1 of Article 21 of Rules on Margins, etc. for Exchange FX Contracts.

B) Individual Company Prorated Base IM Amount<sub>FX</sub> means the average of the amount

Reference Translation

Rules on Required Amount of Clearing Fund

required for the Margin<sup>\*1</sup> of each FX Clearing Participant applicable to each Trading Day in the month in which the base date for calculation of required amount of clearing fund for securities and FX.

(\*1referring to the total sum of the required amount of Margins for proprietary account as well as those for customer accounts and those pertaining to the Brokerage for Clearing of Securities, etc. notified to JSCC by the FX Clearing Participant in accordance with the provisions of Paragraph 1 of Article 21 of Rules on Margins, etc. for Exchange FX Contracts)

- C) Total Prorated Base IM Amounts<sub>FX</sub> means the sum total of the Individual Company Prorate Base IM Amounts<sub>FX</sub> set forth in B) above of all the FX Clearing Participants.

=End=

# Disciplinary Measures Assessment Committee Rules



**Japan Securities Clearing Corporation**

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This English translation of the Rules has been prepared solely for reference purposes and shall not have any binding force. The original Japanese text shall be definitive when construing or interpreting the meaning of any provision.

**Disciplinary Measures Assessment Committee Rules**

**(In effect as of October 1, 2013)**

**Contents**

**Provisions**

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(Article 1 Purpose)

These rules set forth the matters necessary for the Disciplinary Measures Assessment Committee in accordance with the provisions of Article 33-2 of the Business Rules, Article 36 of the CDS Clearing Business Rules (hereinafter referred to as the “CDS Business Rules”), Article 36 of the Interest Rate Swap Clearing Business Rules (hereinafter referred to as the “IRS Business Rules”) and Article 33 of the Japanese Government Bond Over-the-Counter Transaction Clearing Business Rules (hereinafter referred to as the “JGB OTC Business Rules”).

(Article 2 Establishment of Disciplinary Measures Assessment Committee)

JSCC shall establish the Disciplinary Measures Assessment Committee as an advisory committee of the board of directors of JSCC.

(Article 3 Matters for Consultation)

1 When JSCC seeks to take the measures or make the judgements set forth below, JSCC shall consult with the Disciplinary Measures Assessment Committee.

(1) The measures set forth in Article 29, Article 29-2 or Article 29-3 of the Business Rules or judgement about the petition of objection set forth in Paragraph 5 of Article 14 of the Business Rules which applies *mutatis mutandis* in Article 32 of the said rules

(2) The measures set forth in Article 28, Article 30 or Article 31 of the CDS Business Rules or judgement about the petition of objection set forth in Paragraph 5 of Article 15 of the CDS Business Rules which applies *mutatis mutandis* in Article 35 of the said rules

(3) The measures set forth in Article 28, Article 30 or Article 31 of the IRS Business Rules, judgement about the petition of objection set forth in Paragraph 5 of Article 15 of the IRS Business Rules which applies *mutatis mutandis* in Article 35 of the IRS Business Rules or judgement about the cancellation of the appointment of any member of the committee as set forth in Paragraph 2 of Article 5 of the IRS Management Committee Rules (excluding those due to Default, etc. of such member of the committee having been determined or such member of the committee no longer falling under either of the categories set forth in each Item of Paragraph 1 of the said Article).

(4) The measures set forth in Article 28 of the JGB OTC Business Rules, judgement about the petition of objection set forth in Paragraph 4 of Article 13 of the JGB OTC Business Rules which applies *mutatis mutandis* in Article 31 of the JGB OTC Business Rules or judgement about the cancellation of the appointment of any member of the committee as set forth in Paragraph 3 of Article 5 of the JGB OTC Management Committee Rules (excluding those due to Default, etc. of such member of the committee having been determined or such member of the committee no longer falling under either of the categories set forth in each Item of Paragraph 1 of the said Article).

2 The provision of the preceding Paragraph shall not apply to cases where the measures prescribed in Article 29-2 of the Business Rules, Article 30 of the CDS Business Rules and Article 30 of the IRS Business Rules (limited to those in respect of contracts entered into on Participant’s own account) or where there is an urgent need therefor. In this case, JSCC shall report the details of the measures to the Disciplinary Measures Assessment Committee without delay after it takes such measures, etc.

- 3 The Disciplinary Measures Assessment Committee may, in connection with the measures or judgement prescribed in Paragraph 1 of this Article, respond to JSCC's consultation or state its opinion thereon. In such case, JSCC shall respect the opinion of the Disciplinary Measures Assessment Committee.

(Article 4 Committee Members)

- 1 The Disciplinary Measures Assessment Committee shall consist of not less than three (3) but not more than five (5) committee members.
- 2 Members of the Disciplinary Measures Assessment Committee shall be commissioned to serve by the Director and President of JSCC from persons who are not officers or employees of Participants and who have deep insight into the matters for consultation as prescribed in the preceding Article.
- 3 The term of office of the committee members shall be one year from the date on which he/she was commissioned to serve; provided that, when JSCC deems it necessary in light of the time of commission and other circumstances, the term of office shall be the period prescribed by JSCC, which shall not be longer than one year.

(Article 5 Convocation of Committee Meetings)

A meeting of the Disciplinary Measures Assessment Committee shall be convened by the Director and President of JSCC, provided, however, that it shall not preclude the convocation of a meeting by a resolution of the board of directors of JSCC.

(Article 6 Method of Holding a Meeting)

- 1 Where the Director and President or the board of directors of JSCC deem it necessary, a meeting of the Disciplinary Measures Assessment Committee may be held via telephone or other means, or a committee member may attend a meeting via telephone or other means.
- 2 Where the Director and President of JSCC or the board of directors of JSCC deems it necessary, a resolution of the Disciplinary Measures Assessment Committee may be adopted in writing in lieu of holding a meeting.

(Article 7 Method of Resolutions)

- 1 The Disciplinary Measures Assessment Committee may not start proceedings unless at least half of the committee members (excluding committee members who are not able to participate in the deliberation pursuant to the provisions of Paragraph 3 of this Article; the same applies to the following Paragraph) are in attendance.
- 2 In the proceedings of the Disciplinary Measures Assessment Committee, the majority of vote of attending members is required to pass a resolution.
- 3 A committee member may not participate in deliberations on the matter in which such committee member has special interests.

(Article 8 Hearings)

The Disciplinary Measures Assessment Committee may, when deemed necessary to make appropriate judgement on the matters for consultation prescribed in Article 3 hereof, require a Participant or witness in connection with the relevant case to attend a meeting for a hearing.

(Article 9 Committee Members' Duty of Confidentiality)

A committee member or any person who once was a committee member may not divulge to a third party or use for any other purposes any confidential information (meaning the fact which is not known to the public and entails objectively reasonable interests for not being known to others) obtained in the performance of his/her duties unless he/she is required to disclose or provide such confidential information in accordance with orders or requests from courts, supervisory authorities or other public institutions or provisions of laws and regulations, or without any other justifiable grounds.

Supplementary Provisions

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

Supplementary Provisions

- 1 Amendment to these Rules shall be enforced from 19 July 2011.
- 2 The obligations of the committee members appointed before the amendment of these Rules shall follow the previous procedures only to the extent of the terms of such committee members.

Supplementary Provisions

Amendment to these Rules shall be enforced from 9 October 2012.

Supplementary Provisions

Amendment to these Rules shall be enforced from 1 October 2013.

*UNDERTAKING BY CHIEF EXECUTIVE OFFICER TO  
NOTIFY COMMISSION STAFF IF ANY OF  
REPRESENTATIONS CEASE TO BE TRUE AND COMPLETE*

If any of the material representations made in connection with or related to this Supplement S-1 ceases to be true and complete, I will ensure that Commission staff is informed promptly in writing of all changed facts and circumstances.

深山浩永

By: Hironaga MIYAMA

Title: President & CEO

Date: January 27, 2017



(株)日本証券クリアリング機構  
Japan Securities Clearing Corporation

*CERTIFICATION AS TO COMPLIANCE WITH  
PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES*

I hereby certify that Japan Securities Clearing Corporation complies and will continue to comply with the Principles for Financial Market Infrastructures, jointly issued by the Committee on Payment and Settlement Systems (currently, the Committee on Payments and Market Infrastructures) and the Technical Committee of the International Organization of Securities Commissions, as updated, revised or otherwise amended.

深山 浩永

By: Hironaga MIYAMA

Title: President & CEO

Date: January 27, 2017

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# **Principles for Financial Market Infrastructures Disclosure**

**March 31, 2016**

**Japan Securities Clearing Corporation**



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Responding institution: Japan Securities Clearing Corporation

Jurisdiction in which the FMI operates: Japan

Authorities regulating, supervising, or overseeing the FMI: Japan Financial Services Agency (Regulation and Supervision), Bank of Japan (Oversight)

Date of Disclosure: March 31, 2016

This document is also available at [www.jsccl.co.jp/en/](http://www.jsccl.co.jp/en/).

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Japan Securities Clearing Corporation has taken every effort to ensure the accuracy of the information contained in this document. JSCC shall accept no responsibility or liability for any actions involving the use of this information. JSCC reserves the right to, without notice, revise or alter the contents of this document, or withdraw or halt its publication. Additionally, unless otherwise noted, information contained within this document is current as of the end of March 2016. Updates may be made following its initial publication. This document is also available on the JSCC website and is subject to the website's Usage Policy.

This is a reference translation of the original Japanese document. The original Japanese text shall be definitive when construing or interpreting this document.

## I. Executive Summary

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Japan Securities Clearing Corporation (“JSCC”) is the primary clearing house in Japan, providing clearing services (“Clearing Businesses”) for cash products on Tokyo Stock Exchange and other exchanges/PTS in Japan (“Cash Products”), listed derivatives on Osaka Exchange, credit default swaps (“CDS”), interest rate swaps (“IRS”), and OTC Japanese Government Bond (“JGB”) transactions.

JSCC is licensed under the Financial Instruments and Exchange Act (“FIEA”)<sup>1</sup> and directly regulated by the Japanese Financial Services Agency (“JFSA”). In December 2013, the JFSA released Comprehensive Guidelines for Supervision of FMIs, which incorporates the Principles for Financial Market Infrastructures (“PFMI”), which is published by the Committee on Payment and Settlement Systems-Board of the International Organization of Securities Commissions (“CPSS-IOSCO” or “CPMI-IOSCO”)<sup>2</sup>, into Japanese regulations. JSCC is also subject to oversight<sup>3</sup> by the Bank of Japan (“BOJ”) of financial market infrastructures, as provided in the Bank of Japan Act<sup>4</sup>. JSCC is fully compliant with the PFMIs and the JFSA’s Guidelines<sup>5</sup>. This disclosure provides details in accordance with the “Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology,” to demonstrate its compliance. Unless otherwise specified, this disclosure is current as of the end of March 2016.

Furthermore, JSCC has published quantitative information according to PFMI pursuant to the “Public quantitative disclosure standards for central counterparties” published by CPMI-IOSCO in February 2015<sup>6</sup>.

JSCC understands the necessity of a robust and comprehensive system for risk management to fulfill its responsibility to stably provide its clearing services. To handle the credit, liquidity, custody, operational, and other risks to which it is exposed, JSCC has established a solid risk governance structure incorporated into its organization, including the Board of Directors and Risk Oversight Committee.

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<sup>1</sup> FIEA Article 156-2

<sup>2</sup> Name at the time the PFMI’s release. On September 1, 2014, the Committee on Payment and Settlement Systems (CPSS) changed its name to the Committee on Payments and Market Infrastructures (“CPMI”).

<sup>3</sup> In March 2013, BOJ formulated the “The Bank of Japan Policy on Oversight of Financial Market Infrastructures,” clarifying the adopting of the PFMIs as criteria to be used for evaluating the safety and efficiency of systemically important financial market infrastructures.

<sup>4</sup> Bank of Japan Act Article 1

<sup>5</sup> In “Implementation monitoring of the PFMIs: Level 2 assessment report for central counterparties and trade repositories – Japan” publicized by CPMI-IOSCO on February 26, 2015 (the link below), Japan is rated as having completely and consistently adopted the PFMIs applicable for CCPs and TRs.

Link to the report : <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD476.pdf>

<sup>6</sup> JSCC’s quantitative disclosure can be found at the following link: <http://www.jsc.co.jp/en/fmi-pdf2.html>

## II. Summary of Changes since the Previous Update

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This document is JSCC's disclosure pursuant to the "Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology" released by CPSS-IOSCO in December 2012. As Principles 11 (Central Securities Depositories) and 24 (Disclosure of Market Data by Trade Repositories) do not apply to JSCC's business, these principles are not covered in this disclosure.

JSCC published its first disclosure on March 31, 2015. Major changes in this update from the first disclosure are as follows:

- As of April 27, 2015, JSCC received recognition as a Third Country CCP under European Market Infrastructure Regulation. See Principle 1 (Legal Basis: Key Consideration 5) for further details.
- As of September 8, 2015, JSCC was designated as a Prescribed Facility under Corporations Amendment (Central Clearing and Single - Sided Reporting) Regulation 2015 (Select Legislative Instrument No.157, 2015) in Australia. See Principle 1 (Legal Basis: Key Consideration 5) for further details.
- On September 24, 2015, JSCC started clearing foreign currency denominated IRS covering United States Dollars, Euro and Australian Dollars. In association with this, JSCC has established the Policies for Designation of Foreign Currency Fund Settlement Banks. See Principle 9 (Money Settlements: Key Considerations 2 and 3) for further details. Furthermore, JSCC has established the rules and procedures for default settlement upon default of Participants holding positions in foreign currency denominated IRS. See Principle 13 (Participant-default rules and procedures: Key Consideration 1) for further details.
- On September 24, 2015, JSCC introduced cross margining that enables risk offset between IRS and JGB Futures contracts. See Principle 6 (Margin: Key Consideration 4) for further details. In association with this, JSCC has established the rules and procedures for default settlement upon default of Clearing Participants using cross margining. See Principle 13 (Participant-default rules and procedures: Key Consideration 1) for further details.
- As of October 26, 2015, JSCC has received an order of exemption from registration as Derivatives Clearing Organization under U.S. Commodity Exchange Act. See Principle 1 (Legal Basis: Key Consideration 5) for further details.
- On December 25, 2015, JSCC started the disclosure of quantitative information, according to the "Public quantitative disclosure standards for central counterparties", published by CPMI-IOSCO. See Principle 23 (Disclosure of rules, key procedures, and market data: Key Consideration 5) for further details.
- On January 8, 2016, in respect of the risk management framework for the Listed Products Clearing Business, related to Cash Product transactions, JSCC revised the calculation method and other details of defaulter-pay type collateral and introduced a clearing fund framework, which is a pre-funded contribution of financial resources. See Principle 4 (Credit risk: Key Consideration 4), Principle 6 (Margin: Key Considerations 1, 3 and 5) and Principle 13 (Participant-default rules and procedures: Key Consideration 1) for further details.

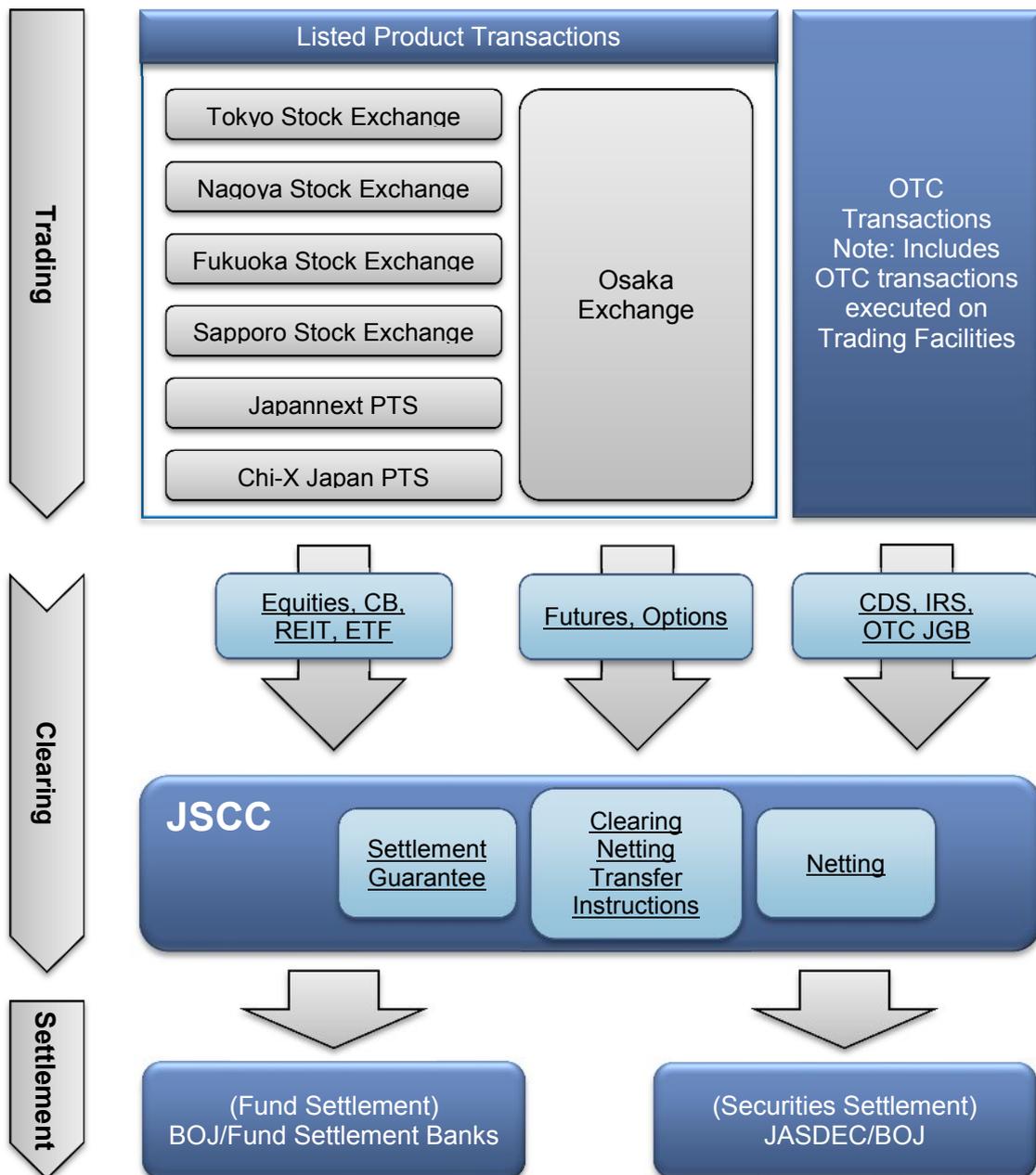
In addition to the above changes, this document contains some additions and revisions to the previous document in association with the minor revisions to the risk management framework and other frameworks in each Clearing Business. Also, this document contains some additions and revisions to the previous document made for the sake of clarification.

### III. General Background of the FMI

#### Overview of JSCC's Background and Clearing Business

JSCC is a majority-owned subsidiary of Japan Exchange Group, Inc. (“JPX Group”). JPX Group’s other subsidiaries include Tokyo Stock Exchange (“TSE”), Osaka Exchange (“OSE”), and Japan Exchange Regulation. JSCC was established on July 1, 2002 and licensed as a central counterparty (“CCP”) on January 7, 2003, making it the first licensed clearing organization in Japan.

General Background of the FMI III-1: Role of JSCC in the Financial Market



JSCC forms the core of clearing and settlement for the Japanese market, clearing all cash product transactions executed on all Japanese securities exchanges and PTS including TSE, listed derivatives transactions executed on OSE, as well as credit default swaps, interest rate swaps, and OTC JGB transactions.

General Background of the FMI III-2: Cleared Products

Category	Details
Cash Products	All trades executed on domestic stock exchanges and two proprietary trading systems
Index Futures	TOPIX Futures mini-TOPIX Futures TOPIX Dividend Index Futures Nikkei 225 VI Futures Nikkei 225 Dividend Index Futures Nikkei 225 Futures Nikkei 225 mini JPX-Nikkei 400 Futures TOPIX Banks Index Futures TOPIX Core30 Futures TOPIX Core30 Dividend Index Futures TSE REIT Index Futures DJIA Futures India Nifty50 Futures RN Prime Index Futures
Index Options	TOPIX Options Nikkei 225 Options
Individual Securities Options	Individual Securities Options
Bond Futures and Options	10-year JGB Futures mini 10-year JGB Futures 20-year JGB Futures 5-year JGB Futures Options on 10-year JGB Futures
Credit Default Swaps	Series of Markit iTraxx Japan 50 index Single Name CDS
Interest Rate Swaps	JPY LIBOR (1M, 3M and 6M) JPY TIBOR (1M, 3M and 6M) Overnight Index Swap USD LIBOR (1M, 3M and 6M) EUR EURIBOR (3M and 6M) AUD BBR (3M and 6M)
OTC JGB Transaction	Outright JGB Cash-secured Bond Lending Transaction Repo Transaction

### General Background of the FMI III-3: Clearing Statistics<sup>7</sup>

Listed Products	
Cash Products Index Futures Options Bond Futures	<a href="http://www.jsc.co.jp/en/listed_products">http://www.jsc.co.jp/en/listed_products</a>

OTC Derivatives	
Credit Default Swaps	<a href="http://www.jsc.co.jp/en/credit_default_swap">http://www.jsc.co.jp/en/credit_default_swap</a>
Interest Rate Swaps	<a href="http://www.jsc.co.jp/en/interest_rate_swap">http://www.jsc.co.jp/en/interest_rate_swap</a>

OTC JGB	
OTC JGB	<a href="http://www.jsc.co.jp/en/jgbcc">http://www.jsc.co.jp/en/jgbcc</a>

#### General organization of the FMI

As a vital financial market infrastructure (“FMI”) in Japan, JSCC employs a governance structure which ensures fairness and robust risk management. At the highest level, JSCC’s Board of Directors is composed of four standing directors and six non-executive directors. The board is responsible for approving high-level policies and budgets, and assessing the controls and rules of JSCC business. It is required to comply with relevant laws and regulations, and is subject to review by statutory auditors and at the annual general shareholders meeting.

JSCC executes business plans based on resolutions of the Board of Directors, realizing JSCC’s corporate philosophy, and overseeing day-to-day operations. The advisory committees of each product area, which are composed of Clearing Participants of the relevant product area and other entities, also function to incorporate the opinions of Clearing Participants into JSCC’s governance. For matters involving actions against Clearing Participants, JSCC consults with the Disciplinary Measures Assessment Committee, which is composed of members that are independent from JSCC and Clearing Participants. See Principle 2 (Governance) for further details.

According to the internal provisions of JSCC’s Risk Management Policy, which is applied to all of its Clearing Businesses, and the Business Rules of each Clearing Business, JSCC has established a framework for managing the specific risks of each business, including eligibility criteria for Clearing Participants and a robust collateral system for initial margin and the Clearing Fund.

From the perspective of managing the credit risk of Clearing Participants, JSCC defines and publicizes clearing qualifications separately for each of its Clearing Businesses, with the criteria for each aligned with the nature of that business. Criteria for participation are reasonable, clear, and publicly available, focusing primarily on the entity’s management structure, financial conditions, and business capability. These are established based on the assumption that Clearing Participants are registered with the JFSA. JSCC continually monitors each Clearing Participant’s management structure, financial condition, and business execution capability. If JSCC recognizes a problematic situation, it has the discretion to suspend clearing services in whole or in part for that Clearing Participant, or revoke its clearing qualification, as necessary. See Principle 18 (Access and Participation Requirements) for further details

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<sup>7</sup> In addition to Clearing Statistics, JSCC discloses quantitative information on its website (<http://www.jsc.co.jp/fmi.html>) according to “Public quantitative disclosure standards for central counterparties” published by CPMI-IOSCO.

As of the end of March 2016, there were a total of 117 listed product Clearing Participants, 10 CDS Clearing Participants, 23 IRS Clearing Participants, and 37 OTC JGB Clearing Participants.

Margin requirements are calculated using SPAN® for listed futures and options, while the Clearing Fund is designed to cover the default of the participant with the largest exposure in extreme but plausible market conditions. For Cash Products, CDS, IRS and OTC JGB transactions, initial margin requirements are calculated using an appropriate look-back and holding period for each, while Clearing Fund contributions are calculated to cover the expected loss using stress scenarios for each clearing business.

JSCC marks open positions to market at least once a day for all products, and more frequently for some products. In addition, JSCC makes intra-day margin calls, which are required to be met by a specific time on the same business day, regularly in the IRS Clearing Business and when the market moves beyond a predetermined threshold in other Clearing Businesses. JSCC is able to make ad-hoc margin calls if it deems necessary. See Principle 6 (Margin) for further details.

In the event of default, JSCC will suspend all delivery of settlement funds and securities between the defaulting participant and JSCC. Thereafter, JSCC will liquidate positions and compensate losses as prescribed in the Business Rules of each Clearing Business. For any type of transaction, Clearing Participants are assured of a safe market as JSCC will guarantee settlements for non-defaulting Clearing participants. In addition, JSCC has secured liquidity supply from Fund Settlement Banks (“Liquidity Supply Facility”) to secure short-term liquidity for use in the event of a Clearing Participant’s default. See Principle 7 (Liquidity Risk) and Principle 13 (Participant-Default Rules and Procedures) for further details.

#### Legal and regulatory framework

JSCC holds a license for “financial instruments obligation assumption service” (i.e. financial instruments clearing) to conduct clearing business as a CCP, and JSCC’s business is governed by the FIEA and other Japanese laws. JSCC has established Business Rules for each of its Clearing Businesses, which are subject to approval by the Prime Minister of Japan. JSCC is obligated by the FIEA<sup>8</sup> to conduct its business and operations according to its Business Rules, thus making these rules legally binding and enforceable. JSCC is subject to the direct regulation and supervision by the JFSA, and oversight in accordance with objectives prescribed in the Bank of Japan Act from the BOJ.

Some of JSCC’s Clearing Participants are domiciled in European Union (hereinafter referred to as “EU”) countries, with their operations registered in Japan, under the FIEA. Because of this, JSCC has obtained recognition as a Third Country CCP under European Market Infrastructure Regulation from the European Securities and Markets Authority to provide services to Clearing Participants and trading venues established in EU countries<sup>9</sup>.

In Australia, JSCC has received designation as a Prescribed Facility under Corporations Amendment (Central Clearing and Single-Sided Reporting) Regulation 2015 (Select Legislative Instrument No.157, 2015)<sup>10</sup>.

Some affiliates of Clearing Participants that clear IRS in JSCC are categorized as U.S. Persons, under the guidelines of the U.S. Commodity Futures Trading Commission (“CFTC”)<sup>11</sup>.

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<sup>8</sup> FIEA Article 156-7

<sup>9</sup> See JSCC press release on “[http://www.jsc.co.jp/en/data/en/2015/04/JSCC-press-release\\_TC-CCP\\_en1.pdf](http://www.jsc.co.jp/en/data/en/2015/04/JSCC-press-release_TC-CCP_en1.pdf)” for details

<sup>10</sup> See JSCC press release on “[http://www.jsc.co.jp/en/data/en/2015/09/JSCC-press-release\\_Prescribed-CCP\\_en1.pdf](http://www.jsc.co.jp/en/data/en/2015/09/JSCC-press-release_Prescribed-CCP_en1.pdf)” for details

<sup>11</sup> U.S. Person defined in the “Interpretive Guidance and Policy Statement regarding Compliance with Certain Swap

To allow these trading entities to access JSCC's IRS Clearing Service, JSCC has obtained an order of exemption from registration as a Derivatives Clearing Organization under the Commodity Exchange Act from the CFTC<sup>12</sup>.

Consequently, each trading entity may satisfy their obligations in relation to the central clearing requirements of OTC derivative transactions that are currently in effect, or expected to be in effect in the future, in the U.S., EU and Australia, by clearing its trades in JSCC.

#### System and operations

For cash product transactions, JSCC serves as the CCP for all domestic Japanese financial instruments exchanges and two Proprietary Trading Systems ("PTS"). It fulfills this role through clearing eligible products at the time the transactions are executed in the market, whereby JSCC interposes itself between the parties, assuming the buyer's obligation for payment and the seller's obligation for delivery.

Settlement of equities and bonds between JSCC and Clearing Participants is conducted on a trade date plus three days basis ("T+3") via a Delivery Versus Payment ("DVP") system.

Transactions of listed derivatives are cleared at the time they are executed in the market.

CDS are cleared once per week on a three-day cycle. Beginning on Tuesday of each week, the pre-cleared CDS is registered to a confirmation platform to apply for clearing. On the next business day, the parties to the transaction may modify details of the transaction, after which it is sent to JSCC. JSCC will clear the trade at 4:00 p.m. on the third business day.

Clearing of IRS is conducted on each business day during the periods of 9:00 a.m. to 12:00 p.m. and 1:00 p.m. and 4:00 p.m.

OTC JGB transactions are cleared once per day, at 6:30 p.m. DVP settlement of OTC JGB transactions is conducted through RTGS (Real-time Gross Settlement) provided by the BOJ.

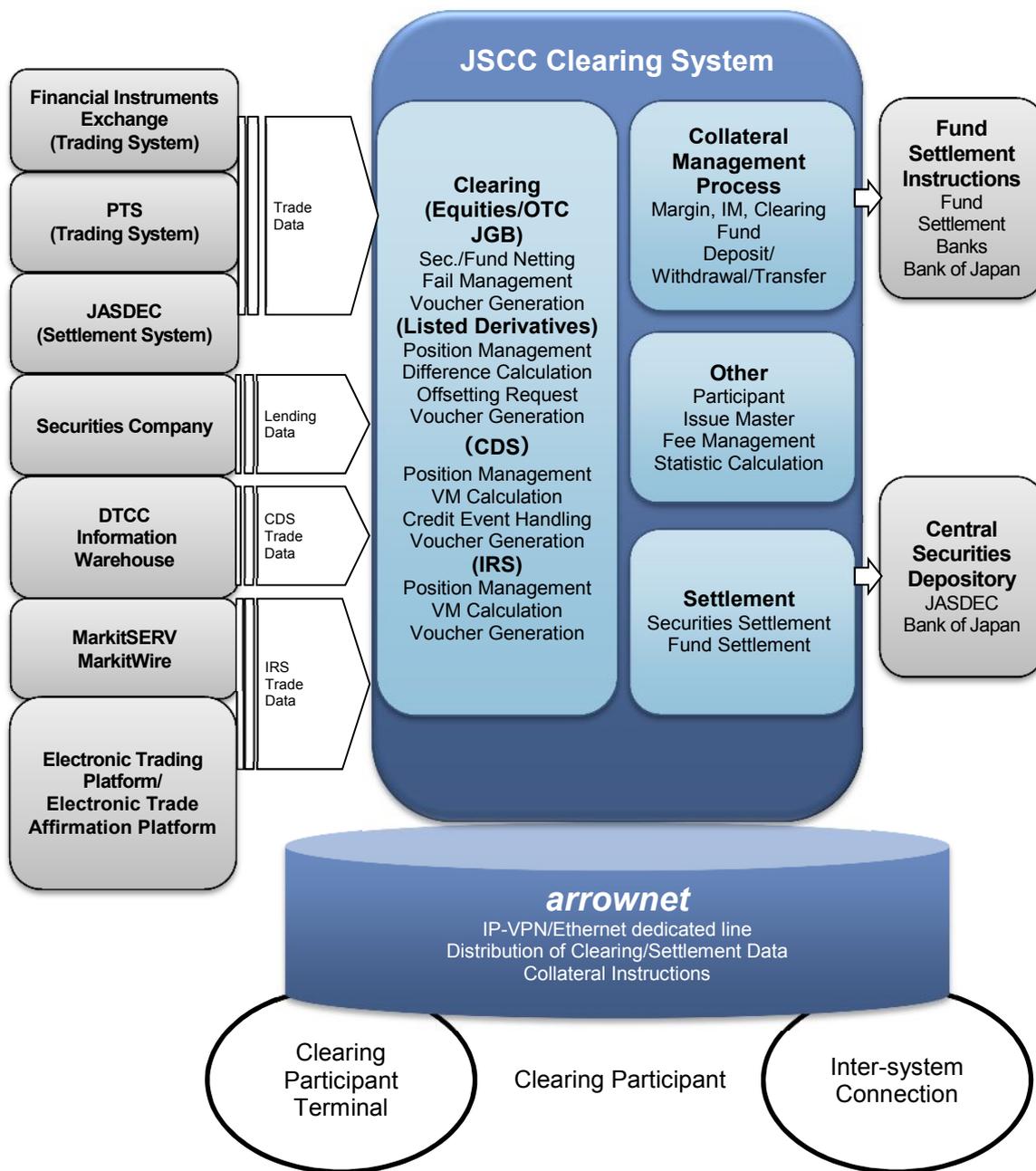
JSCC outsources all development and operations related to IT systems. It appropriately manages outsourcing arrangements according to clearly defined outsourcing guidelines and criteria. The development and operations of IT systems for JSCC's Listed Product Clearing Business and OTC JGB Clearing Business are outsourced to TSE, while those for the CDS and IRS Clearing Businesses are outsourced to Tosho System Services (TSS). Both TSE and TSS are JPX Group subsidiaries, and therefore affiliated with JSCC.

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Regulations (78 Fed.Reg.45292 (July 26,2013)) IV.A.1." published by CFTC.  
See CFTC guidelines on "<http://www.cftc.gov/idc/groups/public/@lrfederalregister/documents/file/2013-17958a.pdf>" for details.

<sup>12</sup> See JSCC press release on "[http://www.jsc.cco.jp/en/data/en/2015/10/JSCC-press-release\\_CFTC-Exemption\\_en1.pdf](http://www.jsc.cco.jp/en/data/en/2015/10/JSCC-press-release_CFTC-Exemption_en1.pdf)" for details.

General Background of the FMI III-4: JSCC System Overview



## IV. Principle-by-Principle Summary Narrative Disclosure

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### General Organization

#### **Principle 1: Legal Basis**

*An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.*

#### **Key Consideration 1:**

**The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions.**

#### Material aspects and relevant jurisdictions

JSCC views the following activities to require a high degree of legal certainty:

- Trade clearing
- Netting
- Settlement finality
- DVP arrangements
- Linkages with other FMIs
- Collateral arrangements
- Default management arrangements

\*While JSCC also views Recovery and Resolution in the event of FMI (CCP) default to be a matter requiring a high degree of legal certainty, details on such arrangements will be determined according to international regulatory trends.

#### Legal Basis for each Material Aspect and Relevant Jurisdiction

JSCC's activities are governed by Japanese laws and regulations, including the FIEA, Civil Code, Companies Act, and the "Cabinet Office Ordinance on Financial Instruments Clearing Organization, etc."

\*However, within JSCC's CDS Clearing Business, the terms and conditions of cleared CDS transactions are governed by and interpreted according to English law in the absence of specific provisions otherwise.

Furthermore, JSCC is subject to the supervision of the JFSA in accordance with the "Comprehensive Guidelines for Supervision of Financial Market Infrastructures," which covers all aspects of an FMI's business and operations.

JSCC's Business Rules are approved by the Prime Minister of Japan, in accordance with the FIEA<sup>13</sup>. JSCC's rules are authorized pursuant to such requirement. JSCC concludes a Clearing Participant Agreement with each Clearing Participant under which the Clearing Participant is required to comply with JSCC's Business Rules. Thereby, JSCC's Business Rules are legally binding as they are positioned as the contract between JSCC and each Clearing Participant.

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<sup>13</sup> FIEA Articles 156-3 and 156-12

The relationships between JSCC, its Clearing Participants, and customers are governed by JSCC'S Business Rules, which set out the rights and obligations of each. JSCC'S Rules and Clearing Participant Agreements state that all of JSCC'S Clearing Businesses are governed by the laws of Japan and fall under the jurisdiction of the Tokyo District Court.

#### Provisions relating to Trade Clearing

JSCC'S Business Rules detail the process of the "Financial Instruments Obligation Assumption Service" for which JSCC holds a license under the FIEA. JSCC'S clearing services are conducted in accordance with the FIEA.

#### Provisions relating to Netting

JSCC'S Business Rules have specific provisions related to close-out netting arrangements for claims and obligations between JSCC and Clearing Participants in the case of a Clearing Participant default. Additionally, the FIEA<sup>14</sup> prescribes that JSCC'S close-out netting process shall prevail over general bankruptcy proceedings.

#### Provisions relating to Settlement Finality

JSCC'S rules and operational procedures (documents prescribing handling of clearing operations in accordance with the rules) contain provisions dealing with settlement finality, and detail the point at which fund/securities settlement between JSCC and its Clearing Participants are settled. This provides certainty to all of JSCC'S Clearing Participants as to the finality related to the performance of their obligations to JSCC. See Principle 8 (Settlement Finality) for further details.

#### Provisions relating to DVP Arrangements

Settlement for Cash Products and JGBs is conducted by DVP. DVP settlement for Cash Products is conducted by linking book-entry transfer at Japan Securities Depository Center, Inc. ("JASDEC") with fund settlement at Fund Settlement Banks, in accordance with JSCC'S rules<sup>15</sup>. DVP settlement for JGBs<sup>16</sup> is conducted through RTGS (Real-Time Gross Settlement) provided by the BOJ.

All securities settlements (book-entry transfer) are conducted according to Japanese law (Act on Book-entry Transfer of Company Bonds, Shares, etc.).

#### Provisions relating to Linkage with other FMIs

JSCC currently only has links to CSD (Central Securities Depository) and SDR (Swaps Data Repository). See Principle 20 (FMI Links) for further details.

#### Provisions relating to Collateral Arrangements

JSCC holds collateral deposited by Clearing Participants and customers in the manner specified in Principle 16 (Custody and Investment Risks).

Clearing Participant and customer collateral is segregated from JSCC'S own assets, in compliance with the requirements of the FIEA<sup>17</sup>. JSCC may, however, use collateral to satisfy obligations owed to it following the default of a Clearing Participant, where the conditions of the

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<sup>14</sup> FIEA Article 156-11-2

<sup>15</sup> Listed Products Clearing Business Rules Chapter 5

<sup>16</sup> Japanese Government Bond Over-the-Counter Transaction Clearing Business Rules Chapter 5

<sup>17</sup> FIEA Article 119, Paragraph 4 and Cabinet Office Ordinance on Financial Instruments Exchanges, etc. Article 67

FIEA and JSCC's Business Rules are met.

Collateral deposited by Clearing Participants with JSCC is treated as "Clearing Margin" as defined in Article 119 of the FIEA for the Listed Products (Derivatives) Clearing Business, and "Clearing Deposit" as defined in Article 156-11 of the FIEA for other collateral. The FIEA gives JSCC the right to receive payment from "Clearing Margin" and "Clearing Deposit" before other creditors.

#### Provisions relating to Default Management Arrangements

The FIEA<sup>18</sup> states that, in the event of a Clearing Participant default, a CCP's rules shall prevail over general bankruptcy proceedings for the settlement of cleared trades between the defaulting Clearing Participant and the CCP.

#### **Key Consideration 2:**

**An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.**

JSCC's rules (including amendments) are developed via a process which includes consultation with Clearing Participants, lawyers, the JFSA and other relevant regulators, as necessary. Through this process, JSCC confirms that its rules are consistent with laws and regulations.

To date, no conflict between JSCC's rules, procedures, and contracts and relevant laws and regulations have been identified.

JSCC also removes uncertainty in its rules and prevents misinterpretation by holding informal discussions with Clearing Participants and discussions in advisory committees and by conducting public consultations on the outline of new rules or amendments to existing rules, except for insignificant rule changes.

#### **Key Consideration 3:**

**An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.**

JSCC makes explanations of the legal basis for its activities widely available via its website, in presentations to the advisory committee for each Clearing Business, and in meetings with Clearing Participants or their customers.

#### **Key Consideration 4:**

**An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.**

#### Enforceability of JSCC's Rules, Procedures, and Contracts

JSCC's Rules, Procedures, and Contracts are written to ensure they have contractual force in all relevant jurisdictions. (See Key Consideration 1 of this Principle for further details.)

The FIEA<sup>19</sup> stipulates that in the event of a Clearing Participant default, a CCP's rules shall

<sup>18</sup> FIEA Article 156-11-2

<sup>19</sup> FIEA Article 156-11-2

prevail over general bankruptcy proceedings for the settlement of cleared trades between the defaulting Clearing Participant and the CCP, allowing JSCC's rules to limit the impact of the insolvency of a Clearing Participant on JSCC's Clearing Businesses.

In the event of the commencement of bankruptcy proceedings in a foreign jurisdiction against a Clearing Participant, the effect of such bankruptcy proceedings extend to Japan only upon a Japanese Court's order of recognition of such proceedings, as specified in the "Act on Recognition of and Assistance for Foreign Insolvency Proceedings." Such proceedings shall apply to the properties of a defaulting Clearing Participant only upon the issuance of an assistance order by a Japanese court. Unless a Japanese court issues such an order, bankruptcy proceedings in a foreign jurisdiction do not directly apply to Japan and will not put collateral posted to JSCC by a defaulting Clearing Participant at risk, even in the event of the default of a foreign Clearing Participant.

#### Degree of Certainty for JSCC's Rules and Procedures

JSCC has confirmed that there are no issues with Japanese law being the governing law of JSCC's Clearing Businesses or the effectiveness of English law with respect to the terms of CDS contracts.

JSCC's Business Rules are subject to approval as required under the FIEA<sup>20</sup>. In this process, the Business Rules are examined to ensure they conform to laws and regulations and are sufficient for conducting Clearing Services appropriately and smoothly. To date, there has been no instance of any regulatory action taken against any of JSCC's activities in Japan or abroad.

#### **Key Consideration 5:**

**An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.**

JSCC continuously identifies and analyzes possible conflict-of-law issues based on the latest information from Clearing Participants, law firms, and regulatory bodies, including the JFSA.

Some of JSCC's Clearing Participants are established in European Union ("EU") countries, with their operations in Japan registered under the FIEA. Due to this, JSCC has obtained the recognition as Third Country CCP under European Market Infrastructure Regulation from European Securities and Markets Authority, enabling JSCC to provide services to Clearing Participants and trading venues established in the European Union<sup>21</sup>.

In Australia, JSCC received designation as a Prescribed Facility under Corporations Amendment (Central Clearing and Single-Sided Reporting) Regulation 2015 (Select Legislative Instrument No.157, 2015)<sup>22</sup>.

Some affiliates of Clearing Participants that clear their IRS trades in JSCC are categorized as U.S. Persons under CFTC guidelines<sup>23</sup>. Therefore, to allow these trading entities to access JSCC's IRS Clearing Service, JSCC has obtained an order of exemption from registration as a

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<sup>20</sup> FIEA Articles 156-3 and 156-12

<sup>21</sup> See JSCC's press release on "[http://www.jsc.co.jp/en/data/en/2015/04/JSCC-press-release\\_TC-CCP\\_en1.pdf](http://www.jsc.co.jp/en/data/en/2015/04/JSCC-press-release_TC-CCP_en1.pdf)" for details.

<sup>22</sup> See JSCC's press release on "[http://www.jsc.co.jp/data/jp/2015/09/JSCC-press-release\\_Prescribed-CCP\\_jp1.pdf](http://www.jsc.co.jp/data/jp/2015/09/JSCC-press-release_Prescribed-CCP_jp1.pdf)" for details.

<sup>23</sup> U.S. Person defined in the "Interpretive Guidance and Policy Statement regarding Compliance with Certain Swap Regulations (78 Fed.Reg.45292 (July 26, 2013)) IV. A.1." published by the CFTC. See CFTC Guidelines on <http://www.cftc.gov/idc/groups/public/@lrfederalregister/documents/file/2013-17958a.pdf> for details.

Derivatives Clearing Organization under the Commodity Exchange Act from CFTC.<sup>24</sup>

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<sup>24</sup> See JSCC's press release on "[http://www.jsccl.co.jp/en/data/en/2015/10/JSCC-press-release\\_CFTC-Exemption\\_en1.pdf](http://www.jsccl.co.jp/en/data/en/2015/10/JSCC-press-release_CFTC-Exemption_en1.pdf)" [for details](#)

## **Principle 2: Governance**

***An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.***

### **Key Consideration 1:**

**An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.**

Under the FIEA and the JFSA's "Comprehensive Guidelines for Supervision of Financial Market Infrastructures -Clearing Organizations, Fund Clearing Organizations, Book-entry Transfer Institutions, and Trade Repositories-," a CCP is required contribute to the stability of the financial system through the precise execution of its clearing operations under proper risk management. JSCC's clearing operations are subject to the supervision of the JFSA. Toward that purpose, JSCC, in its role as an FMI, provides the following in its Corporate Philosophy:

*"JSCC, with a solid risk-management framework, aims to enhance the competitiveness of Japanese financial and capital markets by improving the efficiency, serviceability and safety of financial market post-trade processing infrastructure."<sup>25</sup>*

JSCC's officers and employees are required to conduct operations based on this Corporate Philosophy.

JSCC lays out business policies in its "medium-term business plan," which is created based on its Corporate Philosophy, and uses those policies to formulate detailed business plans. The JSCC Board of Directors reviews the achievement of business plans annually and analyzes whether they achieve results that are consistent with JSCC's Corporate Philosophy.

### **Key Consideration 2:**

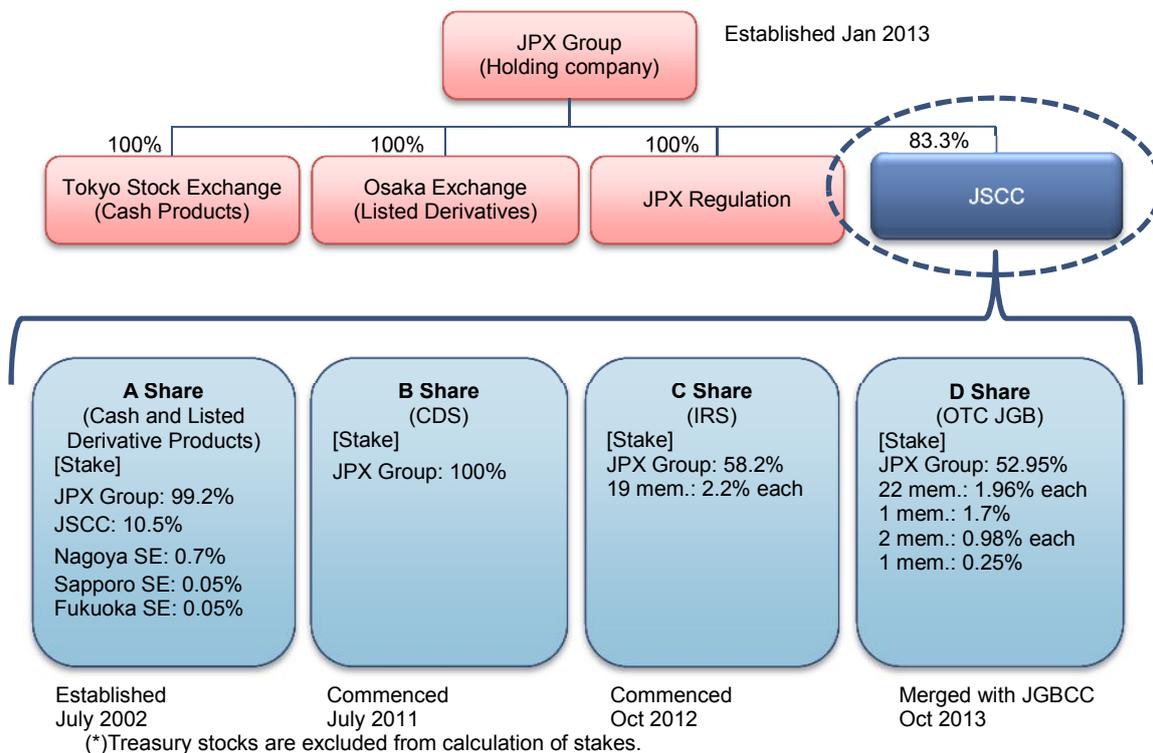
**An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.**

JSCC is established as a joint-stock company under the Companies Act of Japan, and operates as a CCP majority owned by JPX Group, the holding company of TSE, OSE, and Japan Exchange Regulation, as shown below.

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<sup>25</sup> JSCC <http://www.jsc.co.jp/en/company/philosophy.html>

Principle 2 (Governance) Key Consideration 2 IV-1: Shareholder Composition



The corporate governance of JPX, which is JSCC's controlling shareholder, is detailed below. Its fundamental approach seeks to fulfill JPX's social mission, by serving as vital public infrastructure in the form of Japan's central financial instruments market. This is consistent with JSCC's governance that realizes the aim of an FMI, as detailed in its Corporate Philosophy.

*JPX's Basic View to Corporate Governance*

*<Corporate philosophy and social mission>*

*JPX operates markets that are a public asset and fulfills its social mission by pursuing the sustainable development of its markets.*

*<Market operations>*

*JPX operates the markets with the view that garnering support for and fostering confidence in the markets it establishes is in the common interest of all investors and market users, and maintaining and enhancing the support and confidence will build the foundations for sustainable development of its markets.*

*<Enhanced corporate value>*

*In order for JPX to pursue sustainable development of its markets, it must continue to accommodate the diverse needs of shareholders and other stakeholders, thereby enhancing corporate value over the medium to long term.*

*<Effective corporate governance>*

*JPX strives to constantly improve its corporate governance system to further facilitate effective and proper systems, so as to support the sustainable development of its markets.<sup>26</sup>*

JSCC is subject to the supervision of the JFSA in accordance with the FIEA. JSCC's Articles of Incorporation, which provide for its fundamental governance arrangements, satisfy the

<sup>26</sup> JPX <http://www.jpx.co.jp/english/corporate/about-jpx/co-governance/index.html>

detailed governance requirements for a CCP as provided in the FIEA, the “Cabinet Office Ordinance on Financial Instruments Clearing Organization, etc.,” the “Comprehensive Guidelines for Supervision of Financial Market Infrastructures,” and other laws and regulations

#### Governance Arrangements

All of JSCC’s clearing activities take place within four Clearing Business units: Listed Products, CDS, IRS, and OTC JGB. Each Clearing Business maintains its own capital and share class, with business decisions made according to resolutions by the general shareholders meeting and class-shareholders meeting.

JSCC’s Board of Directors is composed of four executive directors (the President and CEO, Executive Vice President, and two Managing Directors) as well as six non-executive directors. The Board of Directors makes decisions on JSCC business activities according to its resolutions, nominates executive officers to execute such activities, and supervises the propriety of officers’ performance of duties.

Directors that represent the opinions of each Clearing Business are nominated to the Board of Directors. The Articles of Incorporation include provisions requiring directors to respect the opinions of each Clearing Business’s advisory committee in order to establish proper governance.

JSCC possesses a board of statutory auditors, composed of three highly independent auditors nominated at the general shareholders meeting. Statutory auditors have the authority and responsibility under the Companies Act to investigate company business and assets in order to ensure the lawfulness of director activities, to request a meeting of the Board of Directors to report on the improper conduct of a director, and to report results of audits to shareholders.

The names and roles of the advisory committees for each of JSCC’s Clearing Businesses are as follows:

##### *Disciplinary Measures Assessment Committee*

In cases where JSCC exercises its authority under the Business Rules of each Clearing Business to take necessary measures against Clearing Participants, JSCC shall seek advice from the Disciplinary Measures Assessment Committee. The committee possesses the necessary knowledge and experience regarding relevant laws, accounting standards, and the market and is composed of members that are independent from JSCC and Clearing Participants.

##### *User Committee*

This committee serves to provide an understanding of Clearing Participants’ demands related to the Listed Products Clearing Business, ensure JSCC’s rules and operations reflect the opinions of Clearing Participants from an operational perspective, and discuss rules and operational matters in response to inquiries from the Board of Directors. Committee members are selected by the CEO from all Clearing Participants, taking into consideration member diversification including the type and scale of their business.

##### *Listed Products Risk Management Committee*

This committee deliberates on risk management matters related to the rules, margin rules, and default management processes of the Listed Products Clearing Business in response to inquiries from the Board of Directors. Committee members are selected by the CEO from among personnel at Clearing Participants and institutional investors, as well as experts on topics under deliberation.

*CDS Risk Management Committee*

*IRS Management Committee*

*OTC JGB Management Committee*

These committees deliberate on proposed changes to the Business Rules and other rules of their respective Clearing Businesses in response to inquiries from the Board of Directors. The committees are composed of Clearing Participants and shareholders.

*JSCC Determination Committee*

This committee determines matters for the CDS Clearing business, including matters concerning Credit Events and Succession Event. Committee members are selected from Clearing Participants.

*CDS Default Management Committee*

*IRS Default Management Committee*

*OTC JGB Default Management Committee*

These committees offer advice on matters such as hedging when the default of a Clearing Participant is determined and bidding during default auctions. Members of these committees are selected from Clearing Participants.

Responsibility for operations rests with the related director. The names and roles of each division are as follows:

*Risk Management Office*

The Risk Management Office is composed of the Risk Management Division and the Risk Monitoring Division. The Risk Management Division is responsible for the creation of risk management policies as well as planning, drafting, and management related to comprehensive risk management. The Risk Monitoring Division is responsible for the planning and drafting of Clearing Participant rules, as well as matters related to clearing/settlement rules and the examination/monitoring of Clearing Participants.

*Corporate Planning Division*

In addition to acting as the secretariat for the general shareholders meeting and the Board of Directors, Corporate Planning also handles general affairs, accounting, and human resources.

*Strategic Planning Division*

Strategic Planning is responsible for formulating management and business plans and managing their execution, in addition to general management matters.

*System Planning Division*

System Planning is responsible for comprehensive planning, strategy, and supervision of IT-related matters, and management and coordination of system-related projects.

*Listed Products Clearing Service*

This clearing service is responsible for planning and drafting of clearing/settlement rules and frameworks, and settlement control of products subject to clearing for listed products.

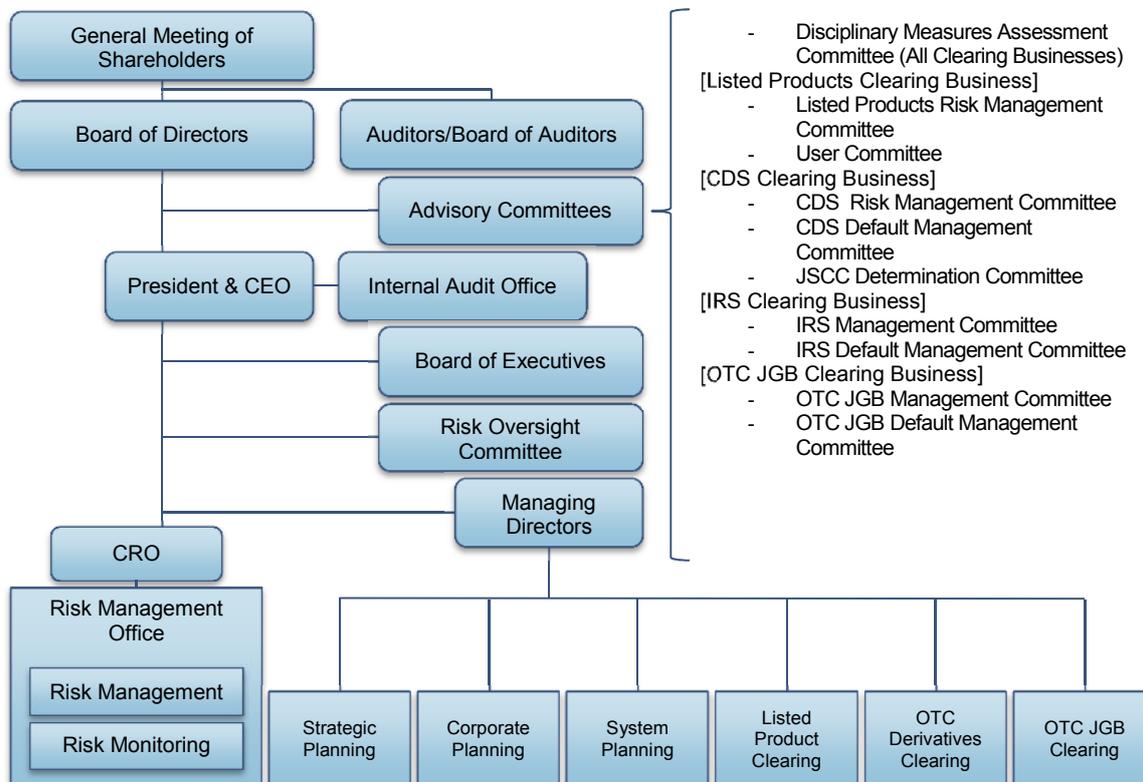
*OTC Derivatives Clearing Service*

This clearing service is responsible for planning and drafting of clearing/settlement rules and frameworks, and settlement control of products subject to clearing for OTC derivatives.

*OTC JGB Clearing Service*

This clearing service is responsible for planning and drafting of clearing/settlement rules and frameworks, and settlement control of products subject to clearing for OTC JGBs.

Principle 2 (Governance) Key Consideration 2 IV-2: Company Organization



Disclosure

JSCC publishes its Annual Report on its corporate website. The Annual report includes a detailed review of JSCC's shareholders, the composition of its Board of Directors and Auditors, and an overview of its advisory committees.

**Key Consideration 3:**

**The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its function, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.**

Roles and Responsibilities of the Board of Directors

JSCC's Board of Directors oversees all of JSCC's business activities and is accountable to its shareholders. The main duties and authority of the Board of Directors and the procedures for the Board meetings are prescribed in the Companies Act, Articles of Incorporation, and JSCC's Rules of Board of Directors.

The main duties of the Board of Directors include approval of the following:

- High-level policies, strategies, and objectives of JSCC, including the medium-term business plan;
- Annual budgets and investment proposals
- Internal control framework to secure the adequacy of internal procedures, risk management, financial reporting, and compliance;

- Appointment and dismissal of the President & CEO

### Managing Conflicts of Interest

The Companies Act<sup>27</sup> provides for managing conflicts of interest between the Board of Directors and individual directors by requiring the disclosure of material facts to and approval from the Board in cases where a director seeks to engage in transactions competing against JSCC's business, or which would result in a conflict of interest.

Auditors are obligated by the Companies Act<sup>28</sup> to report to the Board of Directors, without delay, illegal actions, violations of laws, regulations, or the Articles of Incorporation, or significantly inappropriate facts in relation to the duties of directors, as well as report the results of their investigations to the general shareholders meeting. As such, auditors investigate transactions involving conflicts of interest when preparing audit reports annually.

Furthermore, both the Companies Act<sup>29</sup> and JSCC's Rules of Board of Directors contain provisions prohibiting a director with a special interest in a subject matter from voting on such matter.

### Measures to Facilitate the Functioning of the Board of Directors

JSCC holds a Board of Statutory Auditors<sup>30</sup>, which serves the same function as an audit committee. The duties of the Board of Statutory Auditors are defined in the Companies Act, and include duties such as preparing audit reports, appointing and removing full-time statutory auditors, and deciding audit policy<sup>31</sup>.

### Review of Performance of Board of Directors

Shareholders are able to monitor the performance of the Board of Directors via the business report submitted to the general shareholders meeting. The report contains information on achievement of management policies and business plans, defined in the medium-term management plan and financial results.

For the performance of individual directors, records of each director's participation in board meetings and other meetings, including remarks in such meetings, are used as reference during future nomination processes.

#### **Key Consideration 4:**

**The board should contain suitable members with the appropriate skills and incentives to fulfill its multiple roles. This typically requires the inclusion of non-executive board member(s).**

### Board Member's Skills

The FIEA<sup>32</sup> requires that a CCP's personnel be composed of individuals that "have sufficient knowledge and experience for conducting Financial Instruments Obligation Assumption Service appropriately and certainly and have sufficient social credibility," and nominations to the Board of Directors are made in accordance with such requirements.

<sup>27</sup> Companies Act Articles 356 and 365

<sup>28</sup> Companies Act Article 381, Paragraph 1 and Article 384

<sup>29</sup> Companies Act Article 369, Paragraph 2

<sup>30</sup> Companies Act Article 2, Item 10

<sup>31</sup> Companies Act Article 390, Paragraph 2

<sup>32</sup> FIEA Article 156-4, Paragraph 1

Specifically, JSCC appoints board members who have a broad range of relevant financial markets industry experience, qualifications, and industry knowledge. In the nomination process during the general shareholders meeting, the background of candidates is present and their skills are confirmed.

The backgrounds of board members are publicized via JSCC's website.

#### Board Member Incentives

Suitable standards have been set for board member compensation to retain and motivate individuals with appropriate abilities and incentives, to secure long-term interests.

Additionally, the compensation for standing directors is structured to motivate sustaining and improving JSCC's mid- to long-term performance. This compensation is determined annually by the Compensation Committee based on the performance of each individual within the amount decided on in the general shareholders meeting.

#### **Key Consideration 5:**

**The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.**

#### Roles and Responsibilities of Management

JSCC's senior management is composed of standing directors responsible for operations. In accordance with resolutions of the Board of Directors, the senior management execute JSCC's business plans and oversee daily operations.

The duties of the senior management are set out in JSCC's internal rules and include:

- Making key decisions on the management and operations of JSCC;
- Managing JSCC expenses and investments;
- Executing and managing JSCC's business within the framework of the board-approved Medium-Term business plan;
- Making decisions on matters to be submitted to the Board of Directors in relation to JSCC's policies, strategy, and financial objectives.

The senior management report on JSCC operations to the Board of Directors on a quarterly basis and present a business report and financial results to shareholders annually, following approval by the Board of Directors. Shareholders are thereby able to evaluate the performance and accomplishments of senior management in light of JSCC's role as a CCP and are required to appoint candidates.

#### Experience, Skills, and Integrity

JSCC has confirmed that its senior management meet the qualifications required by the Companies Act and FIEA. JSCC's senior management have diverse experience across exchange operation, banking management, and clearing, risk management, and information technology.

Profiles of the members of JSCC's Board of Directors are available on JSCC's website.

The Board of Directors have the authority to seek a general shareholders meeting resolution to initiate the dismissal of any director failing to fulfill their duties or otherwise bringing JSCC into

disrepute, pursuant to procedures specified in the Companies Act.

**Key Consideration 6:**

**The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.**

Risk Management Framework

JSCC's Board of Directors identifies the risks JSCC is exposed to and determines the Risk Management Policy which sets of JSCC's approach to handling such risks. The board has also prepared a comprehensive risk management structure to ensure company-wide compliance with the Risk Management Policy. It receives regular reports on the state of compliance and can take appropriate measures as necessary. See Principle 3 (Framework for the Comprehensive Management of Risks) for further details.

JSCC's Board of Directors also receives a report at least once a year on the results of an overall review of the risk management framework, and can take appropriate measures in response, as necessary.

The Board of Directors will also receive a report in case of a serious risk event, including a Clearing Participant default or critical system failure, to take action as necessary.

Within JSCC, the Risk Management Office is responsible for confirming each division's compliance with the Risk Management Policy, while the Internal Auditing Office is responsible for conducting audits to confirm the proper execution of business by each department, including the Risk Management Office. The auditing of each Clearing Business division is conducted properly with cooperation between both the Risk Management Office and the Internal Auditing Office.

**Key Consideration 7:**

**The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.**

Identification and Consideration of Stakeholder Interests

JSCC makes its business decisions with consideration given to the interests of stakeholders such as Clearing Participants and their customers.

As stated in Key Consideration 2 of this Principle, the User Committee, Listed Products Risk Management Committee, CDS Risk Management Committee, IRS Management Committee, and JGB OTC Management Committee all include Clearing Participants as members. The Board of Directors makes inquiries to these advisory committees when deciding upon significant changes to operations or the Business Rules. Opinions are also collected from a wide range by soliciting public comments on new rules and significant rule changes in advance.

The Board of Directors also consults the various Default Management Committees, which are composed of Clearing Participants, on hedging measures and default auctions in the event of a Clearing Participant default.

## Disclosure

JSCC publicizes major decisions by the Board of Directors on its website, including the Medium-Term Business Plan, significant rule revisions, and candidates for the Board of Directors.

### **Principle 3: Framework for the Comprehensive Management of Risks**

***An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.***

#### **Key Consideration 1:**

**An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.**

#### Risks that arise in or are borne by JSCC

JSCC is exposed to various risks, such as credit risk, liquidity risk, operational risk (including IT system risk and other operational risk), settlement risk, custody risk, investment risk, concentration risk, legal risk, and business risk.

#### Risk Governance

JSCC's Corporate Philosophy clarifies the importance of risk management and forms the foundation of JSCC's risk governance, as follows:

*“JSCC, with a solid risk-management framework, aims to enhance the competitiveness of Japanese financial and capital markets by improving the efficiency, serviceability and safety of financial market post-trade processing infrastructure.”<sup>33</sup>*

JSCC has defined the following risk management objective in order to achieve the “safety” mentioned in the Corporate Philosophy:

“Establish robust and comprehensive risk management frameworks, ensure steady provision of the Clearing Businesses, and prevent a loss of JSCC's capital.”

Based on this risk management objective, JSCC has identified the risks it is exposed to, as listed above, and has defined the Risk Management Policy to manage them. The Risk Management Policy clarifies the purpose, policies, and management of the risk management framework, including sound risk governance, stringent participant eligibility requirements, a robust margin framework, Clearing Fund and Loss Compensation Scheme, default management, and business continuity plan (“BCP”).

Under the Risk Management Policy, JSCC has rules and policies for handling the specified risks. These consist primarily of the following:

- In order to handle Clearing Participant credit risk, JSCC has defined risk management frameworks, including Clearing Participant rules, margin rules, a Clearing Fund and Loss Compensation Scheme, and default management procedures in its Business Rules and subordinate rules;
- In order to handle operational risk, JSCC has defined a “BCP Basic Plan” to minimize the impact of interruptions to operations and lay out business continuity measures in case of the realization of various risk factors. Additionally, JSCC has defined (a) an “Information Security Policy” and “Information Security Standards” providing for access control and information protection, (b) “Rules for Operational Management” providing for matters for stable operations, such as the preparation of operation manuals and checklists, and procedures to deal with abnormal events, (c) “Rules for Management of Outsourcing” which provide for vendor selection processes and continuous monitoring and control of

<sup>33</sup> JSCC <http://www.jsc.co.jp/en/company/philosophy.html>

outsourced activities, and (d) the “System Risk Management Policy” and “System Risk Management Rules” which provide for the policy and procedures for addressing risks arising from IT system use;

- In order to handle settlement and custody risks, JSCC has defined the “Policies for Designation of Japanese Yen Fund Settlement Banks,” “Policies for Designation of Foreign Currency Fund Settlement Banks” and “Policies for Designation of Custodians of Posted Collateral,” which provide for criteria and procedures for designating commercial banks as Fund Settlement Banks and/or collateral custodians; and
- In order to handle investment risk, JSCC has defined the “Policies for Fund Management of Own Assets” and “Policies for Management of Posted Collateral,”<sup>34</sup> which provide for the scope and methods of such management.

### Comprehensive Risk Management Framework

JSCC has established a comprehensive risk management framework to supervise and manage risks and ensure that responsibilities and accountabilities are clearly defined. Specifically, JSCC’s Board of Directors defines the aforementioned Corporate Philosophy, Risk Management Objectives, and Risk Management Policy and established and executes the risk management framework based on the Risk Management Policy, as follows.

- The division responsible for managing each risk will act according to the Risk Management Policy and report the status of compliance to the Risk Management Office.
- The Risk Management Office will compile and evaluate the reports received from divisions responsible for the management of each risk. The CRO, in his role of supervising the Risk Management Office, shall report the status of compliance with the Risk Management Policy monthly, quarterly, and annually to the Risk Oversight Committee and offer proposals as necessary. Additionally, the CRO shall report the status of compliance with the Risk Management Policy to the Board of Directors quarterly and annually, in principle, and offer proposals as necessary. The Risk Oversight Committee is composed of the President & CEO, executive directors supervising each business unit, division heads, CRO and other Risk Management Office staff, and auditors.

### Regular Revision of the Risk Management Policy and Risk Management Framework

JSCC’s Board of Directors will review the Risk Management Policy and Risk Management Framework at least once a year, and conduct the appropriate revisions in consideration of the risks to which JSCC is exposed. During this review, the Board of Directors will consider new products, the market environment, positions of Clearing Participants, changes in the Japanese and overseas regulatory environment, and other factors. The Board of Directors’ review and revision process will be overseen by the Risk Management Office.

#### **Key Consideration 2:**

**An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.**

JSCC provides all Clearing Participants with detailed information on their positions, collateral requirements and settlement amounts, allowing Clearing Participants to reconcile and manage their market, credit, and liquidity risks. Specifically, the following measures allow Clearing Participants to calculate and manage their own risks:

- Whenever a listed product transaction is executed, the exchange disseminates the execution information, or a drop-copy, in real-time to Trading Participants and Clearing Participants;

<sup>34</sup> <http://www.jsc.co.jp/en/data/fundmanagementpolicy.html>

- For Listed Derivatives, JSCC specifies the use of SPAN® margin methodology, which is widely used globally, in its rules, and distributes a daily risk parameter file, for margin calculation.
- For Cash Products, JSCC has adopted a historical simulation (VaR) margin methodology. The calculation method is specified in JSCC's rules and made public, the required margin amounts are disseminated to Clearing Participants and margin simulation tools are made available for use by Clearing Participants;
- For CDS and IRS, JSCC disseminates trade information whenever a transaction is cleared. Historical simulation (expected shortfall) is used for margin calculation, and the methodology is specified in JSCC's rules and made public. JSCC disseminates the required margin amounts to Clearing Participants and also provides margin simulation tools;
- For OTC JGBs, whenever a transaction is cleared, JSCC disseminates the related information to Clearing Participants. For margin, a delta method is used, and the calculation methodology for which is specified in JSCC's rules and made public. JSCC disseminates the required margin amounts to Clearing Participants; and
- For the Clearing Fund, JSCC specifies the calculation methodologies in its rules, which are publicly available, and disseminates the required amounts to Clearing Participants.

JSCC has established a framework for requiring additional margin, or the reduction of positions, when risks become excessive, for each of its Clearing Businesses. Clearing Participants are incentivized to pro-actively manage position risk in order to control their margin requirements. See Principle 6 (Margin) for further details.

JSCC gives Clearing Participants incentive to properly manage their positions with JSCC by requiring prefunded, or unfunded, mutualized loss compensation resources in accordance with each participant's risk exposure, for each Clearing Business. See Principle 13 (Participant-Default Rules and Procedures) for further details.

JSCC also ensures that Clearing Participants maintain the soundness and appropriateness of their business execution framework through a continuous monitoring process. When an issue arises, JSCC maintains the ability to suspend the clearing services of a Clearing Participant, after consultation with the Disciplinary Measures Assessment Committee. See Principle 18 (Access and Participation Requirements) for further details.

In addition to this, JSCC consults the advisory committees of each Clearing Business and solicits public comments when designing the risk management framework, thus offering opportunities for Clearing Participants and their customers to have effective management and controls for their risks. See Principle 2 (Governance) for further details.

**Key Consideration 3:**

**An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.**

Management of Interdependencies

JSCC monitors the risks of entities with which it has interdependencies and takes preventative measures to reduce risk.

The primary entities with which JSCC has interdependencies are Fund Settlement Banks, custodian banks, banks providing liquidity supply (Liquidity Supply Facilities), and the CSD. JSCC manages the settlement risk, custody risk, and liquidity risk arising from such

interdependencies with these entities in accordance with the Risk Management Policy.

Specifically, JSCC monitors financial conditions of these entities to assess their credit risk and appropriately manages business processes with each. JSCC has also defined measures in its BCP for cases where business of such entities is disrupted by system malfunctions or other factors. In this way, JSCC manages the aforementioned risks with such entities. The status of risk management is reviewed on a monthly basis in a report on compliance with the Risk Management Policy, while risk management methods are reviewed annually or as necessary in the course of validation of the Risk Management Policy.

**Key Consideration 4:**

**An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.**

JSCC's Risk Management Policy defines the risk management objective as "Establish robust and comprehensive risk management frameworks, ensure steady provision of the Clearing Businesses, and prevent a loss of JSCC's capital." The Risk Management Policy also provides for measures against various risks which would disrupt the provision of vital JSCC services as a going concern. Specifically, this assumes the realization of various risks to which JSCC is exposed, mentioned in Key Consideration 1 of this Principle, as scenarios in which JSCC is unable to provide its services, such as JSCC's resources being unable to cover the loss resulting from a Clearing Participant's default, JSCC being unable to finance funds necessary for settlement, or continuous loss due to reduced revenues or increased costs for long periods.

JSCC is required to have measures in place to ensure the appropriate operation of its Clearing Businesses, by the FIEA<sup>35</sup>. For risks posed by a Clearing Participant's default, JSCC has prepared a Loss Compensation Scheme to fully cover the losses resulting from the default within its default management framework, and has arrangements for liquidity appropriate to the nature of the products it clears. These measures allow JSCC to avoid risk scenarios which would prevent the provision of its Clearing Businesses and services.

While there are appropriate measures in place to guard against business and other risks based on the Risk Management Policy, JSCC also has plans in place to revise business plans and reduce costs as necessary should such risks be realized. See Principle 15 (Business Risk) for further details.

In the unlikely case where JSCC finds it difficult to provide its Clearing Businesses and services, it would cooperate with regulators and related parties to resolve the situation.

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<sup>35</sup> FIEA Article 156-10

## Management of Credit Risk and Liquidity Risk

### **Principle 4: Credit Risk**

*An FMI should effectively measure, monitor, and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain, at a minimum, total financial resources sufficient to cover the default of the one participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions.*

### **Key Consideration 1:**

**An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.**

### Credit Risk Borne by JSCC

JSCC bears the credit risk of its Clearing Participants. Additionally, Fund Settlement Banks and custodians can also be sources of credit risk, as described below. JSCC has established a robust risk management framework to handle these credit risks.

### Framework to Manage Clearing Participant Credit Risk

JSCC has in place a robust risk management framework to manage the credit risk of Clearing Participants.

- JSCC only admits entities, under supervision of the JFSA, that possess a sound management structure and financial basis and an appropriate business execution structure. JSCC requires Clearing Participants to continue to satisfy these criteria. This ensures that Clearing Participants have sufficient financial resources to fulfil their obligations to JSCC.
- In principle, JSCC requires Clearing Participants to deposit variation margin to cover current exposure and initial margin to cover potential future exposure. JSCC may also require Clearing Participants to deposit additional margin when necessary. See Principle 6 (Margin) for further details.
- JSCC actively monitors the credit exposure of Clearing Participants, at least once a day, and can take risk mitigating actions, such as requesting additional margin or position reduction, as necessary.
- In order to cover risks which cannot be covered by variation/initial margin resulting from times of market stress, JSCC requires Clearing Participants to contribute to a Clearing Fund. In addition, JSCC contributes to the financial resources for default loss from its own capital, and an appropriate part of these resources are committed ahead of the Clearing Fund contributions of Clearing Participants. The loss compensation resources, including those mentioned above, are used to meet any losses resulting from a Clearing Participant's default, where the losses exceed the defaulting Clearing Participant's own resources. See Principle 13 (Participant-Default Rules and Procedures) for further details.

- JSCC clears Cash Products and government bonds, which are exposed to principal risk. However, this principal risk is eliminated via the use of DVP settlement. See Principle 12 (Exchange-of-Value Settlement Systems) for further details.

JSCC confirms the effectiveness of its risk management framework by conducting an overall review at least once a year. During this review, JSCC takes into account new products, the market environment, Clearing Participant positions, Japanese and overseas regulatory developments, and other related factors.

#### Framework to Manage Credit Risks of Fund Settlement Banks and Custodians

In order to manage the credit risk of Fund Settlement Banks and custodians, JSCC performs continuous monitoring against the selection criteria, which include: being supervised by the financial regulator of Japan or their home country; possessing a framework to properly carry out operations for JSCC; and having stable financial standing.

#### **Key Consideration 2:**

**An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.**

#### Credit Risks from Clearing Participants

Credit risk from Clearing Participants arises from the possibility of one or more of them defaulting. In such case, JSCC faces credit exposure arising from price movements in the positions it has cleared for the defaulting Clearing Participant.

This credit exposure consists of both current and potential future exposure.

- JSCC measures current exposure by marking-to-market every outstanding position to the latest market price, and measures potential future exposure based on analysis of historical price movements and/or volatility index derived from actual option premiums in the market, at least once a day for all products. See Principle 6 for further details.
- JSCC measures credit exposures under extreme but plausible stressed market conditions when measuring potential future exposure. See Key Consideration 5 of this Principle for further details of the stress testing methodologies employed for each of JSCC's Clearing Businesses.

JSCC uses the following tools to manage its credit exposures:

- Daily deposit of variation margin, initial margin, and regular/ad-hoc intra-day margin. See Principle 6 (Margin) for further details;
- Pro-active monitoring of changes in Clearing Participant credit exposures due to position/price fluctuations at least once a day for all products;
- Requiring addition margin or position reduction as necessary based on the above monitoring; and
- In order to reduce the principal risk of Cash Products and JGBs, Cash Products use net/net DVP (Model 3 in CPSS's "Delivery Versus Payment in Securities Settlement Systems"(1992)), while OTC JGBs and JGB Futures use gross/gross DVP provided by BOJ (Model 1 in CPSS's "Delivery Versus Payment in Securities Settlement Systems"(1992)).

#### Credit Risk from Fund Settlement Banks and Custodians

Credit risk from Fund Settlement Banks and custodians arises from the possibility of a default by such an entity. In such case, there is the risk that JSCC would not be able to conduct

fund settlement with Clearing Participants or withdraw deposits held by custodians. These deposits could include Clearing Participant margin and Clearing Fund deposits and JSCC's proprietary assets.

JSCC designates commercial banks that satisfy its "Policies for Designation of Japanese Yen Fund Settlement Banks" and "Policies for Designation of Foreign Currency Fund Settlement Banks" as the Fund Settlement Banks, and custodians that satisfies its "Policies for Designation of Custodians of Posted Collateral" as custodians for collateral. JSCC monitors the Fund Settlement Banks' and custodians' compliance with these guidelines on a regular basis. Moreover, Japanese yen settlement funds in Fund Settlement Bank accounts and Japanese yen cash collateral, including Clearing Participant margin and Clearing Fund deposits held in custodian accounts, are covered by the Japanese Deposit Insurance System, which protects these funds against the default of the Fund Settlement Bank or custodian. Some deposited funds are trusted under a trust scheme and are legally protected from the risk of the trustee's default.

In order to diversify its exposures as much as possible, JSCC uses multiple commercial banks and the BOJ to conduct fund settlement and act as custodians for cash collateral. See Principle 9 (Money Settlements) and Principle 16 (Custody and Investment Risks) for further details.

**Key Consideration 3:**

**A payment system or SSS should cover its current and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources (see Principle 5 on collateral). In the case of a DNS payment system or DNS SSS in which there is no settlement guarantee but where its participants face credit exposures arising from its payment, clearing, and settlement processes, such an FMI should maintain, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would create the largest aggregate credit exposure in the system.**

This consideration is not applicable to JSCC, as JSCC has no payment system or SSS function.

**Key Consideration 4:**

**A CCP should cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other prefunded financial resources (see Principle 5 on collateral and Principle 6 on margin). In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. In all cases, a CCP should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of total financial resources it maintains.**

Coverage of Current and Potential Future Exposures

Each of JSCC's Clearing Businesses covers current exposures and potential future exposures, including times of stress, to each Clearing Participant by securing additional financial resources, including variation margin, initial margin to a high confidence level, and

Clearing Fund resources.

#### (1) Variation Margin

For listed derivatives, CDS, IRS, and OTC JGB, open positions are marked-to-market using the most recent price at least once a day, following which variation margin is exchanged with Clearing Participants in Japanese yen, with variation margin for foreign currency denominated IRS being exchanged in the relevant currency. This process ensures that current exposure is covered in a timely manner. For Cash Product transactions, current exposure is covered by initial margin.

#### (2) Initial Margin

Initial margin is calculated for each Clearing Business using a method appropriate for that business, with a confidence level of at least 99% for all products.

- For Cash Product transactions, current exposure and potential future exposure are both covered by initial margin. Initial margin for Cash Product transactions is calculated using the marked-to-market value of the open positions, obtained by using the most recent price, and expected loss from open positions obtained by using historical simulation (VaR) method.
- The initial margin for listed derivatives is calculated using SPAN®.
- For CDS and IRS transactions, historical simulations (expected shortfall) are used.
- For OTC JGB, initial margin is calculated, according to the nature of the product, to cover price fluctuation risk, settlement failure risk (including variation margin and interest payments), repo rate fluctuation risk, and risk of divergence between the mid-price and the bid/offer price.

JSCC has additional margin rules to respond to concentration and credit risk, according to the nature of each Clearing Business. See Principle 6 (Margin) for further details on initial margin structure.

Initial margin must be deposited in Japanese Yen cash, or in the form of highly liquid securities (securities in lieu of cash), such as JGBs. When securities are deposited in lieu of cash, they will be marked-to-market on a daily basis, and subject to haircuts to reflect potential market risks of the asset. Initial margin deposits are held in either JSCC's account at the relevant custodians, or trusted in a Japanese domestic trust bank, and are fully accessible when required. See Principle 5 (Collateral) for further details on JSCC's collateral policies

#### (3) Margin Sufficiency and Validation

The variation margin mentioned above is the same amount as the current exposure and is thus ensures coverage of the current exposure on a daily basis. Initial margin, which covers potential future exposure, is backtested on a daily basis to evaluate its sufficiency. See Principle 6 (Margin) for further details.

#### (4) Clearing Fund

JSCC requires each Clearing Participant to contribute to a Clearing Fund which covers potential future exposure in the case of the default of multiple Clearing Participants in extreme but plausible market conditions, for each Clearing Business.

Because of the "jump-to-default" risk (risk of a reference entity experiencing a credit event) involved in CDS, default expectations are set to the 2 largest Clearing Participants, while expectations are set to the 1 largest Clearing Participant at minimum for other products.

The required amount for the Clearing Fund of each Clearing Business is revised on either a weekly or monthly basis, in accordance with the risk amount of the relevant business.

#### Other Additional Financial Resources

JSCC has other financial resources, such as its own loss bearing resources and additional contributions from Clearing Participants for each Clearing Business in addition to the Clearing Fund. For Cash Products and listed derivatives, these additional financial resources include loss sharing by the market operator. See Principle 13 (Participant-Default Rules and Procedures) for further details on loss compensation resources and the default waterfall.

#### Evaluation of Loss Compensation Resource Sufficiency

JSCC conducts daily stress tests for Clearing Participant positions for each of its Clearing Businesses, in order to confirm the sufficiency of loss compensation resources. See Key Consideration 5 of this Principle for further details on stress testing.

#### Governance Arrangements

The calculation and deposit methods for additional financial resources, including margin and the Clearing Fund, are clearly provided for in the Business Rules and other rules of each Clearing Business. To ensure sufficiency of the overall financial resources, the Risk Management Policy provides for stress testing, and the preparation of measures to respond to any insufficiencies. Daily stress testing is performed to monitor the sufficiency of the overall financial resources, with monthly reviews performed by the Risk Oversight Committee, and by the Board of Directors on a quarterly basis. See Principle 2 (Governance) for further details on JSCC's governance.

#### **Key Consideration 5:**

**A CCP should determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. A CCP should have clear procedures to report the results of its stress tests to appropriate decision makers at the CCP and to use these results to evaluate the adequacy of and adjust its total financial resources. Stress tests should be performed daily using standard and predetermined parameters and assumptions. On at least a monthly basis, a CCP should perform a comprehensive and thorough analysis of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions. A CCP should perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CCP's participants increases significantly. A full validation of a CCP's risk-management model should be performed at least annually.**

#### Stress Testing

JSCC conducts stress testing at least daily to determine whether overall financial resources, including margin and the Clearing Fund, are sufficient to cover potential losses, for each of its Clearing Businesses. JSCC's stress testing framework includes a range of the largest historical movements and extreme but plausible hypothetical scenarios. See Key Consideration 6 of this Principle for further details on the stress testing scenarios used by each of JSCC's Clearing Businesses.

The results of daily stress testing are reported to the CRO, CEO and other executive directors, and the related division head. Additionally, stress testing results are reported as a part of the status report of compliance with the Risk Management Policy as it pertains to credit risk to

the Risk Oversight Committee on a monthly basis and the Board of Directors on a quarterly and annual basis. The results are also reported annually to the advisory committees, whose members include Clearing Participants of each Clearing Business. If a problem with the sufficiency of the overall financial resources is identified during stress testing, JSCC will take appropriate action including review and/or revision of the necessary financial resources.

#### Review and Validation

JSCC validates the suitability of the scenarios, models, and parameters used in stress testing of loss compensation resources on at least a monthly basis. JSCC's stress scenarios reflect recent market prices, volatility fluctuations, and positions. For market liquidity fluctuations, rules for securing resources are prepared according to necessity for each product and parameters are revised based on prevailing market conditions.

JSCC's Risk Management Office validates the overall risk management model at least annually, and makes recommendations regarding revisions to be considered by the relevant Clearing Business division. The reporting line of the Risk Management Office is independent from the Clearing Business divisions, and reports directly to the CRO. Thus ensuring the validation process conducted by the Risk Management Office is independent from the Clearing Business divisions.

The validation process verifies the effectiveness of the margin/Clearing Fund model and specifications according to the prevailing market environment, and makes recommendations regarding revisions to be considered. The results of the validations are reported to the Board of Directors and the advisory committees of each Clearing Business.

#### **Key Consideration 6:**

**In conducting stress testing, a CCP should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.**

When conducting stress testing, JSCC considers a range of conservative scenarios that are extreme, but plausible. These scenarios are suitably set in accordance with the nature of each product, taking into account relevant historical market data.

The scenarios used in stress testing, to confirm sufficiency of loss compensation financial resources, are based on historical scenarios. For the Listed Products Clearing Business, stress scenarios are based on market data from a period of at least 20 years, including the largest historical fluctuations since market inception. This time period includes Black Monday (1987), the Asian Financial Crisis (1997-1998), the bankruptcy of LTCM (1998), the September 11 attacks in the U.S. (2001), the Lehman Shock (2008), the Great East Japan Earthquake (2011), and the Swiss Franc Shock (2015).

In the case of listed derivatives, for which sudden price fluctuations and options volatility fluctuations are expected, stress scenarios are used which combine price fluctuations incorporating fat tails and volatility fluctuations incorporating autocorrelation.

For interest rate-sensitive products like IRS and OTC JGB, stress scenarios take into account features of historical yield curves identified through principal component analysis.

Forward-looking scenarios are also used, which include theoretical future conditions.

Scenarios include the default of multiple Clearing Participants, including the largest. For

products with a tear-up framework of all Clearing Participant positions should losses exceed the loss compensation resources, a scenario is used that incorporates a greater number of defaults than that used in the Clearing Fund calculation, in consideration of the large impact up to that point.

**Key Consideration 7:**

**An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.**

Allocation of Credit Losses

JSCC's Business Rules clearly define the composition, calculation method, order of utilization of loss compensation resources, and the process for assessment for additional funds from Clearing Participants.

Losses which cannot be covered by a defaulting Clearing Participant's own funds would be covered by other financial resources, including the Clearing Fund of other Clearing Participants and JSCC's own resources. See Principle 13 (Participant-Default Rules and Procedures) for further details.

Replenishment of Financial Resources

In cases where the Clearing Fund of non-defaulting Clearing Participants is used for Listed Products, replenishment to the original amount will be required on the following business day.

In the case of CDS, IRS, and OTC JGB, replenishment to the recalculated Clearing Fund amount will be required on the business day following the 30th day after the default. In cases where another default occurs during this period, this will be the 30th day after the second default, and so forth for successive defaults. (hereinafter referred to as "Capped Period").

To cover credit risk during the Capped Period, JSCC calculates the required Clearing Fund for each non-defaulting Clearing Participant on a daily basis. If the required Clearing Fund exceeds the required Clearing Fund for the day immediately preceding the first default, JSCC will call for deposit of the amount equal to such excess from the non-defaulting Clearing Participant ("Default Contingent Margin"). The Default Contingent Margin is a defaulter-pay type collateral to be used as financial resources to cover losses arising from the potential default of the Clearing Participant that deposited the Default Contingent Margin.

### **Principle 5: Collateral**

*An FMI that requires collateral to manage its or its participant's credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.*

#### **Key Consideration 1:**

**An FMI should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity, and market risks.**

#### **Eligible Collateral**

JSCC has a basic policy of only accepting collateral with low risk in relation to credit, liquidity, and market. The scope of eligible collateral for each Clearing Business is defined based on this basic policy.

JSCC accepts the following collateral from its Clearing Participants for Initial Margin and Clearing Fund deposits.

Principle 5 (Collateral) Key Consideration 1 IV-3 Eligible Collateral

Eligible Collateral	Cash Products	Listed Derivatives	CDS	IRS	OTC JGB
Cash (JPY)	✓	✓	✓	✓	✓
Japanese Government Bonds	✓	✓	✓	✓	✓
Bonds guaranteed by the Japanese Government (*1)	✓	✓			
U.S. Treasury Bonds/Notes/Bills	—	Margin Only	✓	✓	—
Stocks (those listed on a Japanese financial instruments exchange)	✓	✓	—	—	—
Municipal Bonds (*1)	✓	✓	—	—	—
Special Bonds (excluding bonds guaranteed by the Japanese Government) (*1, 2)	✓	✓	—	—	—
Corporate Bonds (excluding bonds with stock acquisition rights and Exchangeable Corporate Bonds) (*1, 2)	✓	✓	—	—	—
Yen-denominated bonds issued by foreign juridical persons (SAMURAI bonds) (excluding Yen-denominated bonds with are the bonds stipulated in Article 2-11 of the Enforcement Ordinance of the FIEA, Convertible Bonds, and Exchangeable Corporate Bonds) (*1, 2)	✓	✓	—	—	—
Beneficiary securities of public and corporate bond investment trusts	✓	✓	—	—	—
Convertible Bonds (those listed on a Japanese financial instruments exchange)	✓	✓	—	—	—
Exchangeable Corporate Bonds (those listed on a Japanese financial instruments exchange)	✓	✓	—	—	—
Investment securities	✓	✓	—	—	—

(\*1) Limited to those with respect to which an underwriting contract is executed by a Financial Instruments Business Operator in connection with their issuance.

(\*2) With respect to Special Bonds (excluding bonds guaranteed by the Japanese Government), Corporate Bonds (excluding bonds with stock acquisition rights and Exchangeable Corporate Bonds), and Yen-denominated Bonds issued by foreign juridical persons (excluding Yen-denominated bonds which are stipulated in Article 2-11 of the Enforcement Ordinance of the Financial Instruments and Exchange Act, Convertible Bonds, and Exchangeable Corporate Bonds), limited to those deemed appropriate by JSCC taking the issuing company's creditworthiness and other circumstances into account (e.g. all ratings obtained from Eligible Rating Agencies are A or above, etc.)

JSCC confirms that collateral is eligible at the time it is deposited by Clearing Participants. As such, it is not possible for Clearing Participants to post ineligible collateral.

#### Wrong-Way Risk

JSCC guards against specific wrong-way risk by not accepting securities issued by a Clearing Participant or its group affiliates as collateral.

#### **Key Consideration 2:**

**An FMI should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions.**

#### Collateral Valuation

JSCC values collateral deposited by Clearing Participants, on a daily basis, using market prices and haircut ratios specified in the rules. JSCC maintains the right to change a valuation price at its discretion in cases such as considerable market fluctuations, as set forth in its rules.<sup>36</sup>

#### Collateral Haircuts

For bonds, conservative haircuts are adopted by ensuring that the haircuts cover the largest historical 4-day price movement over the previous year. In addition, for US Treasuries, JSCC takes into account foreign exchange risk.

For equities, collateral is valued at 70% in accordance with the application of the haircut. The suitability of this haircut is verified based a certain ratio of the largest historical 4-day price movements over both the previous year and previous 6 months.

JSCC conducts daily backtesting to validate the appropriateness of the collateral haircuts. Collateral haircuts are updated quarterly to reflect the latest market environment, and JSCC is also able to apply ad-hoc haircuts to collateral, other than JPY-cash.

#### **Key Consideration 3:**

**In order to reduce the need for procyclical adjustments, an FMI should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent.**

JSCC has established conservative collateral haircuts that are calibrated to cover extreme price movements observed during periods of stressed market conditions and regularly validated. Therefore, JSCC considers the necessity for adjusting on procyclicality is kept to a minimum. See Key Consideration 2 of this Principle for details on the establishment and calibration of haircuts.

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<sup>36</sup> Listed Products Clearing Business Rules Article 15-2, Paragraph 3, Article 16, Paragraph 3, Article 52, Paragraph 3, and Article 70, Paragraph 5  
CDS Clearing Business Rules Article 7  
IRS Clearing Business Rules Article 7  
OTC JGB Clearing Business Rules Article 70-8, Paragraph 2

**Key Consideration 4:**

**An FMI should avoid concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects.**

Concentration Limits

JSCC imposes limits to prevent undue concentration from certain collateral assets in order to protect against adverse price movements affecting its collateral holdings. For example, equity collateral is capped at 5% of the issued and outstanding shares of a single company.

**Key Consideration 5:**

**An FMI that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner.**

The only cross-border collateral accepted for JSCC's Clearing Businesses are US Treasuries, which have high market demand, high liquidity, and can be easily liquidated.

For the Listed Products Clearing Business, US Treasuries are held at a US custodian bank in JSCC's name, and JSCC is recognized as the holder of such collateral. As such, JSCC is able to issue instructions regarding the liquidation of deposited US Treasuries as necessary. Additionally, US Treasuries deposited for the IRS and CDS Clearing Businesses are put into trust and held at a Japanese trust bank, with JSCC holding the authority under the Business Rules to issue instructions for the liquidation of them, if required.

**Key Consideration 6:**

**An FMI should use a collateral management system that is well-designed and operationally flexible.**

Collateral Management System Design

JSCC's collateral management system provides functionality for collateral eligibility checking, deposit and withdrawal processing, balance management, haircut management, and mark-to-market valuation.

By accessing the collateral management system, Clearing Participants are able to process the deposit and withdrawal of collateral and re-allocation of collateral deposited with JSCC.

Clearing Participants are able to access a collateral management system which provides real-time collateral information, such as types of eligible collateral assets, deposit balance and market price.

The collateral management systems used for each Clearing Business allow the deposit and withdrawal of collateral at any time during the operational hours specified in JSCC's Business Rules and operational procedures. It can restrict the deposit of ineligible collateral.

The collateral management system evaluates collateral daily and sets the scope for eligible assets by acquiring market data each day from external source (listed exchanges for equities, and the Japan Securities Dealers Association ("JSDA") for JGB OTC trades<sup>37</sup>) and applying haircuts. Revisions to haircuts can be implemented in a timely manner via overnight batch processing.

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<sup>37</sup> The JSDA publishes daily market prices for OTC JGB trades based on quotes submitted by financial institutions.

In relation to re-using collateral, JGB collateral for Initial Margin deposited by Clearing Participants in relation to the OTC JGB Clearing Business may be re-hypothecated with the BOJ for seamless operation of JGB DVP settlement.

As most of the primary operations in the collateral management system, including deposit, withdrawal, and valuation are conducted via STP, operations in times of market stress (a high volume of collateral-related transactions), no additional resources are required to ensure seamless operations.

## **Principle 6: Margin**

***A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.***

### **Key Consideration 1:**

**A CCP should have a margin system that establishes margin levels commensurate with the risks and particular attributes of each product, portfolio, and market it serves.**

### Margin Framework

JSCC clears the following products and uses different margin frameworks for each, depending on the nature of each product:

- Listed Cash Products
- Listed Derivatives (Futures and Options)
- CDS
- IRS
- OTC JGB

JSCC requires margin to be deposited by all Clearing Participants, and the deposit of variation margin and initial margin is required according to the rules of each Clearing Business. For derivatives transactions, JSCC also requires the deposit of variation margin and initial margin from customers. Variation margin, which covers current exposure, and initial margin, which covers potential future exposure, are to provide coverage for the depositor's own potential losses, and the required amount of each is determined according to positions and market fluctuations.

Additionally, market liquidity is a factor when determining the required amount of margin for some products. The margin calculation methods for each Clearing Business are defined in JSCC's Business Rules and subordinate rules. (See Key Consideration 3 of this Principle for an overview.)

### Provision of Information to Clearing Participants

JSCC provides a simulation system to allow Clearing Participants of Cash Products, IRS and CDS, to calculate initial margin based on hypothetical portfolios.

Margin for listed derivatives is calculated using the SPAN® methodology, and Clearing Participants can calculate their required margin using risk parameter files (RPF) provided by JSCC.

In addition to assisting in required margin calculation, the RPF can be used in margin simulation. (For example, JSCC provides Clearing Participants with the RPF, which includes parameters for the following week, for the purpose of margin simulation.)

### Deposit and Withdrawal of Margin

JSCC calculates the required amount of variation margin and initial margin at least once daily at the close of business each day using the most recent market prices for each product, with deposits and payments occurring on either the date of calculation or the following business day.

For IRS, margin deposits are required twice a day. For the other Clearing Businesses, deposit of intraday margin is required if the market moves beyond a certain thresholds. This

margin framework ensures margin requirements are calculated based on recent market prices.

Additionally, when accepting new IRS transactions from Clearing Participants, JSCC requires the pre-funding of variation margin and initial margin required to cover the entire portfolio, including both the new transaction and cleared transactions, before clearing the new transaction. New trades which fail to fulfil this requirement are rejected.

In the case of transactions from customers outside of Japan, considering the difference of time zones, JSCC permits customers to deposit initial margin with a Clearing Participant by the business day following that on which the Clearing Participant deposited initial margin for such customer transactions with JSCC.<sup>38</sup>

**Key Consideration 2:**

**A CCP should have a reliable source of timely price data for its margin system. A CCP should also have procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable.**

JSCC uses reliable price data in its margin calculations. JSCC's primary sources of price information are as follows, all of which use prices that reflect market conditions in a timely manner.

- Listed products: JSCC calculates margin using trade prices on the relevant exchanges, or prevailing market prices, such as final quotes or theoretical prices.
- CDS: Price quotes are provided by Clearing Participants. JSCC establishes prices based on the average of the quotes, having excluded the outliers. JSCC subjects Clearing Participants who submit outliers to the payment of additional Clearing Fees or mandatory trade execution based on the submitted quote in order to maintain the quality of submitted prices.
- IRS: Price quotes are provided by Clearing Participants. For highly liquid interest rate product, additional quotes are provided by third party inter-dealer brokers. JSCC establishes prices based on the average of the quotes, excluding the outliers. JSCC subjects Clearing Participants who submit outliers to the payment of additional Clearing Fees, thus maintaining the quality of prices submitted.
- OTC JGB: Prices are acquired by JSCC from the JSDA, which publicizes prevailing market prices of OTC JGBs based on quotes submitted by market participants, which are financial institutions participating in OTC JGB transactions.

For products which only rely on quotes, JSCC has procedures in place to ensure the accuracy of the price data, including averaging quotes with outliers excluded and applying penalties, such as additional Clearing Fees, to Clearing Participants that submit outliers.

Additionally, when handling new products that rely on quotes, prior to launch, JSCC confirms that Clearing Participants are able to submit reliable quotes.

Should it not be possible to acquire the latest market prices, the latest available price will be used for margin calculations. Overall validation of the margin model is conducted at least once a year by the Risk Management Office, independent from each Clearing Business. See Principle 6, Key Consideration 7 for details of model validation.

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<sup>38</sup> IRS Clearing Business Rules Chapter 6  
CDS Clearing Business Rules Chapter 6

**Key Consideration 3:**

**A CCP should adopt initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. Initial margin should meet an established single-tailed confidence level of at least 99 percent with respect to the estimated distribution of future exposure. For a CCP that calculates margin at the portfolio level, this requirement applies to each portfolio's distribution of future exposure. For a CCP that calculates margin at more-granular levels, such as at the subportfolio level or by product, the requirement must be met for the corresponding distributions of future exposure. The model should (a) use a conservative estimate of the time horizons for the effective hedging or close out of the particular types of products cleared by the CCP (including in stressed market conditions), (b) have an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products, and (c) to the extent practicable and prudent, limit the need for destabilising, procyclical changes.**

Margin Model

JSCC sets initial margin to cover potential future exposure under regular market conditions, primarily using the positions and market fluctuations for each product to determine required amounts. As such, JSCC's model seeks to cover regular price movements at a confidence level of 99%, or more for some products, with a holding period until liquidation of positions set on a per-product basis.

Additionally, JSCC may impose a Liquidity Charge, which takes account of market liquidity and position concentration according to the nature of each product.

JSCC also has prepared a framework to prevent sudden changes in required margin amounts by including stress scenarios in some of the margin calculations and setting a conservative floor for the required margin amount. The approach used may vary according to the nature of each product.

Margin Calculation Method**(1) Listed Products: Cash Products**

JSCC calculates the required initial margin for Cash Products by using the methodology outlined in 1) below, and when the aggregate risk amount of a Clearing Participant is considered excessive, JSCC will increase the required initial margin using the methodology outlined in 2) below.

**1) Required Initial Margin**

JSCC calculates the daily required initial margin for Cash Products based on the following:

- Mark-to-market value of each open position evaluated using the latest price;

Separate payment/deposit of variation margin is not conducted for Cash Products, with an equivalent amount included in the initial margin calculations.

- Expected losses from open positions obtained by using a historical simulation (VaR) methodology based on the price fluctuation of unsettled open positions;

Under the historical simulation (VaR) methodology JSCC employs for calibrating expected losses from open positions, the daily price movement is obtained, for each issue, by using scenarios generated during a predetermined period in the past, and the expected loss is set as the value to cover a certain confidence level. The parameters used for the calculation are a

250-days reference period, 99% confidence level, and a 1-day holding period.

#### 2) Initial Margin Requirement Add-ons

JSCC has a rule in place to increase the required initial margin for Clearing Participants in accordance with risks associated with each Clearing Participant's open positions. If the expected loss of a Clearing Participant under stressed market conditions cannot be covered by the Clearing Participant's pre-funded financial resources, for Cash Product transactions, then JSCC will increase the required initial margin for the Clearing Participant in advance.

#### (2) Listed Products: Listed Derivatives

JSCC determines the required amount of initial margin for listed derivatives by applying the net option value to the amount calculated using Chicago Mercantile Exchange's ("CME") SPAN® methodology. SPAN® methodology calculates the risk arising from a portfolio of futures and options on the account level according to a sensitivity analysis, with consideration given to the nonlinear risk of option contracts. SPAN® margin calculation requires the definition of a Price Scan Range and a Volatility Scan Range, as well as a range of other parameters, including Intra-Commodity and Inter-Commodity correlations.

In order to reflect recent price fluctuations in a timely manner, the Price Scan Range, which represents such fluctuations, employs a parameter determination method factoring in volatility index calculated from the option premium (1-day holding period, 99% confidence level). For products which do not involve options, a parameter determination method referencing historical price fluctuations is used (1-day holding period, reference period of 54 weeks, 99% confidence level).

For the Volatility Scan Range, which represents volatility fluctuations, a parameter determination method referencing past volatility fluctuations is used (1-day holding period, reference period of 54 weeks, 99% confidence level).

Additionally, for JGB Futures contracts, in order to cover credit risk from the final positions of a Clearing Participant in the settlement by physical delivery and payment, a deposit of initial margin is separately required from Clearing Participants during the period from the last trading day of each contract month, to the day before the date of the settlement by physical delivery and payment. The amount of this initial margin is the sum total of the expected loss for each issue, based on the price movement of each JGB issue subject to the physical delivery and payment (120-day reference period, 99% confidence level).

#### (3) CDS

JSCC calculates initial margin for CDS transactions by applying a variety of additional charges in reflection of the nature of CDS transactions to the Initial Margin Base Amount obtained via historical simulation (expected shortfall) methodology. These include a charge to cover the risk of the reference entity experiencing a credit event.

##### 1) Initial Margin Base Amount

The Initial Margin Base Amount is calculated according to a historical simulation (expected shortfall) methodology, in order to cover the risk from price fluctuations. Specifically, it is set to cover a certain level of NPV fluctuation determined using daily prices during a certain historical period for the CDS positions on the date of calculation. Calculation parameters include a reference period of 750 days, a confidence level of the average of the worst 1%, and a holding period of 5 days. In addition to data during the reference period, a stress scenario is included with double the regular holding period (10 days) for the largest historical fluctuation. These considerations take into account the tendency for CDS to experience sudden price fluctuations.

##### 2) Short Charge and Bid/Ask Charge

The Short Charge is calculated to cover “jump-to-default” risk. Net positions are calculated for each reference entity and the Short Charge is calculated by multiplying the notional amount of the largest net short position by 0.8.

The Bid/Ask Charge is calculated to cover liquidity risk arising when liquidating positions following a Clearing Participant default. Net positions are calculated for each issue and the Bid/Ask Charge is calculated by multiplying the sensitivity (PV01) of the net position by the bid/ask spread which JSCC sets based on the prevailing market condition.

### 3) Credit Event Margin and Single Name Margin

Credit Event Margin is added to initial margin to cover the risk arising from a reference entity which has experienced a credit event. The net short positions of trades referencing such reference entity are calculated. The net positions are then multiplied by a ratio, applicable to the reference entity, which is prescribed by JSCC in consideration of market conditions.

Single Name Margin is added to initial margin to cover the risk of a reference entity that is a component of an Index CDS experiencing a restructuring credit event, if the settlement of the Single Name CDS has not yet occurred. Net positions of transactions referencing such reference entity are calculated. For net short positions, the Single Name Margin is derived by multiplying the net position by a ratio, applicable to the reference entity, which is prescribed by JSCC dependent on market conditions. For net long positions, the Single Name Margin is derived by taking the present value of future cash flows for trades referencing the reference entity.

JSCC also applies a concentration charge to cover the risk of certain Clearing Participants with concentrated CDS positions. Specifically, JSCC increases the required initial margin of Clearing Participants which hold positions in excess of a level set based on market size. This measure acts to discourage Clearing Participants from taking excessive positions relative to the market size.

### (4) IRS

JSCC calculates the required amount of initial margin for IRS transactions using historical simulation (expected shortfall) methodology, and applies charges in consideration of the nature of IRS transactions.

#### 1) Initial Margin

The required amount of initial margin is calculated using historical simulation (expected shortfall) methodology to cover risks from interest rate fluctuations. Specifically, it is set to cover a certain amount of an NPV fluctuation calculated using a daily yield curve fluctuation scenario for a given historical period.

Parameters used in the calculation include a reference period of 1,250 days, a confidence level of the average of the worst 1%, and a holding period of 5 days (7 days for customer transactions). In addition to the data from the reference period, data from the significant historical interest rate fluctuations are also used as stress scenarios. This is to prevent sudden changes in required initial margin when stress events are applied to or removed from the interest rate fluctuations during the reference period. Additionally, JSCC has methodologies in place (Volatility Scaling methodology based in Exponentially Weighted Moving Average method) to revise the historical interest rate fluctuation scenarios, based on current interest rate trends.

If a Clearing Participant or an affiliate desires, JSCC can provide a cross margining service, enabling the offsetting of initial margin for JPY-denominated IRS between JGB Futures. For a Clearing Participant or an affiliate using cross margining, the required initial margin is calculated by using the same historical simulation (expected shortfall) methodology as the IRS Clearing Business.

#### 2) Liquidity Charge

Liquidity Charge is calculated to cover market liquidity risk arising from the liquidation of a defaulting Clearing Participant's positions. When the PV01 of positions for each tenor bucket exceeds a certain level, a Liquidity Charge is imposed. This charge is calculated based on by multiplying the excess by an ask/bid spread derived from a market survey of Clearing Participants.

### 3) Holiday Margin

The settlement of variation margin and other cash settlements for foreign currency denominated IRS is difficult on a non-business day in the home jurisdiction of the relevant currency. However, the latest market movements in the relevant currency need to be properly captured in JSCC's risk management framework. Therefore, JSCC adjusts the Clearing Participant's required initial margin by an amount equivalent to the variation margin and other cash settlements, in the relevant currency.

When a market in the home jurisdiction of the relevant currency is open on a JSCC non-business day, JSCC increases the required initial margin for the relevant Clearing Participant on the day immediately preceding JSCC's non-business day, in order to cover expected interest rate and foreign exchange market risk.

## (5) OTC JGB

JSCC requires initial margin for OTC JGBs to cover the risk of price fluctuations calculated using the delta method, with a variety of additional charges to take account of the specific nature of OTC JGBs.

### 1) Initial Margin

For OTC JGBs, initial margin is referred to as POMA (Post Offset Margin Amount). POMA is calculated using a delta method and based on historical price fluctuations during a given period, taking into account the correlations between issues. Parameters used in calculations include a reference period of 250 days, a confidence level of 99%, and a holding period of 3 days. Additionally, in order to reflect changes in positions due to intraday DVP settlement, Adjusted POMA is calculated according to the same method at the completion of intraday settlement.

In order to reflect large historical fluctuations in the market and positions, Average POMA is calculated by averaging a certain ratio of the top POMA for a given historical period. Though correlations between issues are used in POMA calculations, a minimum amount is set as a certain ratio of the risk before offsetting to prevent excessive offsetting. The greatest of POMA, Adjusted POMA, Average POMA, and the minimum amount is used to determine the initial margin required to cover actual market price fluctuations.

### 2) Other Charges

Charges added to initial margin include (a) initial margin to cover FOS (Fund Only Settlement) failure risk, (b) initial margin to cover repo rate fluctuation risk, and (c) market impact charge.

Initial margin to cover FOS failure risk is calculated to cover the loss arising from failure of Fund Only Settlement, including the payment/receipt of variation margin or JGB coupon, due to the default of a Clearing Participant. It is calculated by averaging a certain ratio of the top settlement amounts during a certain historical period.

Initial margin to cover repo rate fluctuation risk is calculated to cover the repo cost arising from executing repo transactions in the liquidation of the positions of a Clearing Participant which has defaulted. It is calculated by multiplying the repo trade amount needed to reconstruct the OTC JGB positions by the repo rate spread expected by JSCC. As with the initial margin calculation, the greatest of the risk amount, the average of a certain ratio of the top risk amounts for a given historical period, and the minimum amount are used.

The market impact charge is calculated to cover the market liquidity risk arising from the liquidation of a defaulted Clearing Participant's positions. Specifically, a bid/ask spread is determined based on a market survey of Clearing Participants for each JGB type, maturity, and terms to maturity. The relevant bid/ask spread is then multiplied by the position's interest rate sensitivity.

**Key Consideration 4:**

**A CCP should mark participant positions to market and collect margin at least daily to limit the build-up of current exposures. A CCP should have the authority and operational capacity to make intraday margin calls and payments, both scheduled and unscheduled, to participants.**

JSCC has adopted variation margin frameworks which aim to reduce current exposure for each of its Clearing Businesses. Variation margin is paid/received once per day. When calculating variation margin, positions are marked-to-market using the most recent market prices, and the difference between the prior valuation and the latest mark-to-market is paid/received.

A framework is also in place to handle large price fluctuations, where intraday calculations are made using the most recent market prices, with intraday margin calls issued if required to cover any exposures on the same day. However, intraday market prices are difficult to acquire for OTC JGBs when recalculating required margin. Therefore, JSCC applies a predetermined ratio to the required margin calculation based on positions at the previous day's close of business to recalculate the intraday required margin and issue intraday margin calls.

**Key Consideration 5:**

**In calculating margin requirements, a CCP may allow offsets or reductions in required margin across products that it clears or between products that it and another CCP clear, if the risk of one product is significantly and reliably correlated with the risk of the other product. Where two or more CCPs are authorised to offer cross-margining, they must have appropriate safeguards and harmonized overall risk-management systems.**

Portfolio margining

JSCC calculates the required amount of initial margin for each type of transaction for each proprietary and customer account of Clearing Participants based on the portfolio of positions belonging to each account.

For Cash Products, JSCC calculates initial margin by applying a historical simulation (VaR) methodology, to take account of correlations between the price movements of different issues.

When calculating initial margin for listed derivatives (futures/options), JSCC uses the SPAN® methodology. Within that, JSCC allows margin offsetting for positions in the same product but different contract months based on price fluctuation correlations, as well as margin offsetting between products with high correlation.

For CDS transactions, JSCC calculates initial margin by applying a historical simulation (expected shortfall) methodology, to take account of price fluctuation correlation for positions in different reference entities and different terms to maturity.

For IRS transactions, JSCC calculates initial margin by applying a historical simulation (expected shortfall) methodology, to take account of interest rate fluctuation correlation for positions in different rate types and different tenors. JSCC has introduced a cross margining mechanism for initial margin which enables risk to be offset between JPY-denominated IRS and JGB Futures. For a Clearing Participant or an affiliate using cross margining, the required initial margin is calculated by using the same historical simulation (expected shortfall) methodology as

the IRS Clearing Business.

For OTC JGBs, JSCC calculates margin using offset ratios based on price fluctuation correlation for positions in issues with different terms to maturity.

#### Cross-margining

JSCC does not offer cross-margining arrangements with any other CCPs.

Among eligible products for JSCC's clearing, JSCC conducts cross margining across multiple types of products. If a Clearing Participant or an affiliate desires, JSCC can provide a cross margining service that enables the offsetting of initial margin between JPY-denominated IRS and JGB Futures.

#### Robustness of Margin Model

JSCC conducts daily backtesting to verify the robustness of its margin model.

Parameters used to calculate required margin are regularly revised, with additional revisions made for times of market stress.

Additionally, correlation parameters used in margin calculations for listed derivatives and OTC JGBs are reviewed on a weekly basis. JSCC also updates historical data on price fluctuations for margin calculation of Cash Product transactions, CDS and IRS transactions using a historical simulation method, on a daily basis. As such, correlated fluctuations are reflected in margin calculations in a timely manner.

#### **Key Consideration 6:**

**A CCP should analyse and monitor its model performance and overall margin coverage by conducting rigorous daily backtesting – and at least monthly, and more-frequent where appropriate, sensitivity analysis. A CCP should regularly conduct an assessment of the theoretical and empirical properties of its margin model for all products it clears. In conducting sensitivity analysis of the model's coverage, a CCP should take into account a wide range of parameters and assumptions that reflect possible market conditions, including the most-volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices.**

#### Backtesting

JSCC performs daily backtesting of each account for each Clearing Business using required margin amounts and losses based on actual price fluctuations, in order to confirm that the target confidence level prescribed in the Risk Management Policy is achieved.

If the target confidence level has not been achieved, JSCC will analyze the cause, and examine appropriate measures, such as revisions to the margin model or parameters, as needed.

JSCC reports backtesting results to the Risk Oversight Committee on a monthly basis, to the Board of Directors on a quarterly basis, and to Clearing Participants via the advisory committees of each Clearing Business on an annual basis.

#### **Key Consideration 7: A CCP should regularly review and validate its margin system.**

JSCC's Risk Management Office, which is independent from Clearing Business divisions, reviews and validates its overall margining models at least annually. Within these reviews, JSCC evaluates the policies and calculation methods of the risk management framework,

including margining, and validates their sufficiency and propriety based on backtesting and stress testing results. JSCC adds or revises margin models, as necessary, when implementing new products. The addition or revision of any margin models is subject to validation by the Risk Management Office.

The results of the overall review and validation of the margin model are presented annually to the Board of Directors and to Clearing Participants via the advisory committees of each Clearing Business.

## **Principle 7: Liquidity Risk**

***An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.***

### **Key Consideration 1:**

**An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities.**

The primary potential source of liquidity risk is the default of a Clearing Participant. When a Clearing Participant defaults, JSCC will first use cash deposited as collateral by the defaulting Clearing Participant and cash withheld from payments to the defaulting Clearing Participant to perform fund settlement. In preparation for cases where these funds are insufficient, JSCC has secured yen-denominated and foreign currency denominated liquidity supplies from multiple commercial banks that have been designated as Fund Settlement Banks (Liquidity Supply Facilities).

Each of JSCC's Fund Settlement Banks is also a Clearing Participant, and thus plays multiple roles in relation to JSCC. However, in order to ensure the supply of liquidity even in the case of a Fund Settlement Bank's default, JSCC has secured Liquidity Supply Facilities from multiple Fund Settlement Banks.

In addition to this, because a large amount of liquidity is expected to be required if an OTC JGB Clearing Participant defaults, due to the large settlement amount associated with the settlement of notional amount, JSCC has established a framework to procure liquidity via JGB repo transactions with Clearing Participants and other financial institutions.

### **Key Consideration 2:**

**An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.**

In the fund settlement for each of its Clearing Businesses, JSCC has established a framework whereby payments from JSCC are made to receiving Clearing Participants after funds are received by JSCC from paying Clearing Participants. As such, there is no need to procure intraday liquidity for fund settlement, except in the event of a paying Clearing Participant default. Therefore, JSCC continuously monitors the status of payments from paying Clearing Participants.

Additionally, JSCC regularly receives information on Clearing Participant cash flow. If, for example, the expected amount of funds needed for daily fund settlement by a Clearing Participant exceeds either that Clearing Participant's fund settlement capability or the largest historical levels of fund settlement, JSCC will contact that Clearing Participant to discuss the situation.

**Key Consideration 3:**

**A payment system or SSS, including one employing a DNS mechanism, should maintain sufficient liquid resources in all relevant currencies to effect same-day settlement, and where appropriate intraday or multiday settlement, of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions.**

This consideration is not applicable to JSCC, as JSCC does not provide any payment system or SSS functionality.

**Key Consideration 4:**

**A CCP should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments, and meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should consider maintaining additional liquidity resources sufficient to cover a wider range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would generate the largest aggregate payment obligation to the CCP in extreme, but plausible market conditions.**

JSCC has secured Liquidity Supply Facilities from multiple Fund Settlement Banks to ensure fund settlement.

JSCC has secured Liquidity Supply Facilities for both Japanese Yen that is a settlement currency for all Clearing Businesses, as well as other settlement currencies related to foreign currency denominated IRS.

JSCC conducts daily stress tests to confirm the sufficiency of its total liquidity supply, for all settlement currencies.

JSCC has established a framework for procuring liquidity via repo transactions with Clearing Participants for OTC JGBs and is not dependent on Liquidity Supply Facilities. As such, the stress testing of the sufficiency of Liquidity Supply Facilities applies for all products, except OTC JGBs. See Key Consideration 9 of this Principle for liquidity stress testing for OTC JGBs.

In stress testing, JSCC calculates and totals, per stress scenario, the stress risk arising from each transaction subject to clearing. JSCC calculates stress risk based on extreme but plausible price fluctuations, such as the largest observed historical price fluctuation for each market.

A large amount of cash equity transactions are executed to liquidate arbitrage transactions on the day following the final trading date of each contract month ("SQ Date") of index futures/options. This results in a significant increase in the liquidity requirement. To account for this, JSCC uses the largest historical fund settlement payment, including SQ Dates, in the stress risk amount.

The number of simultaneous defaults used in the stress risk calculations is 2 Clearing Participants for CDS transactions (including the affiliates of the Clearing Participants), due to the complexity of "jump-to-default" risk, and 1 Clearing Participant for all other Clearing Businesses (including the affiliates of the Clearing Participant).

Additionally, JSCC monitors the stress risk amount using coverage of the 2 largest Clearing Participants among all of Clearing Businesses, in order to promptly identify the emergence of liquidity risk.

These stress risk calculations assume the largest loss in simultaneous stress scenarios occurring in separate Clearing Businesses. However, since it is unlikely that the individual scenarios assumed for each Clearing Business would be realized simultaneously, JSCC also calculates stress risk based on stress scenarios which cover across all Clearing Businesses (excluding OTC JGBs).

In addition to scenarios based on historical data, JSCC also calculates stress risk based on hypothetical forward-looking scenarios and conducts reverse stress tests to cover a wider range of cases and allow for more varied analysis.

**Key Consideration 5:**

**For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transaction with) the relevant central bank. All such resources should be available when needed.**

JSCC has prepared the following qualifying liquid resources to meet its liquidity needs:

- Cash deposited by a defaulting Clearing Participant as margin or Clearing Fund; and
- Liquidity Supply Facilities.

In addition to the above, JSCC has established a liquidity framework via JGB repo transactions with Clearing Participants and other financial institutions, for OTC JGBs.

JSCC is able to use cash collateral deposited as margin and Clearing Fund by a defaulting Clearing Participant on the day when it becomes necessary.

Liquidity Supply Facilities are provided by commercial banks which have been designated as Fund Settlement Banks. Pursuant to agreements with each Fund Settlement Bank, funds should be made available on the date of application, if the application is made prior to a pre-agreed cut-off time.

JGB repo transactions, which are utilized to meet any funding needs in the OTC JGB Clearing Business, are highly liquid and JSCC expects it can procure the necessary funds on an intraday basis.

When the need arises for JSCC to procure liquidity in times of stress, JSCC expects that it is able to procure the required amount using these qualifying liquid resources.

**Key Consideration 6:**

**An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as part of its liquidity plan.**

As in Key Consideration 5 of this Principle, JSCC expects that it is able to procure the required amount of liquidity using qualifying liquid resources. When necessary, JSCC is also able to use its own assets as supplementary liquid resources.

**Key Consideration 7:**

**An FMI should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider.**

Liquid Resources

JSCC's qualifying liquid resources are composed of cash deposited as margin or Clearing Fund by a defaulting Clearing Participant and Liquidity Supply Facilities. Additionally, JSCC has established a liquidity framework via JGB repo transactions with Clearing Participants and other financial institutions for OTC JGBs.

Reliability of Liquidity Providers

JSCC diversifies its liquidity sources by receiving Liquidity Supply Facilities from 6 Fund Settlement Banks for Japanese yen and 2 Fund Settlement Banks for other currencies. The concentration status of liquidity provider resources is monitored on a monthly basis.

JSCC considers the Liquidity Supply Facility from each Fund Settlement Bank is sufficient for performing its commitment in proportion to the Fund Settlement Bank's balance sheet. During the 2008 Financial Crisis, JSCC was able to access Liquidity Supply Facilities without issue.

All of the Japanese yen Fund Settlement Banks operate under the supervision of the JFSA and have access to the fund provision operations of the BOJ. All of the Fund Settlement Banks which are the liquidity supply providers for other currencies operate under the supervision of the JFSA or financial regulators in the countries of their establishment. JSCC continuously monitors the financial soundness of these banks by receiving regular reports on their financial status.

JSCC has established a liquidity framework via JGB repo transactions with Clearing Participants and other financial institutions for OTC JGBs. This framework assumes that, when procuring liquidity from the market is difficult, Clearing Participants will access the supplementary lending of the BOJ, which uses JGBs as collateral, ensuring its effectiveness.

JSCC confirms the effectiveness of its access to the liquid resources of liquidity providers in default settlement fire drills that are conducted at least annually.

**Key Consideration 8:**

**An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.**

JSCC utilizes an account at the BOJ for the settlement of funds for each of its Clearing Businesses, to the extent possible. Specifically, all Japanese Yen fund settlements for the CDS, IRS, and OTC JGB Clearing Businesses are conducted through a BOJ account.

For the IRS Clearing Business, funds to be settled in other currencies, in relation to foreign currency denominated IRS, are settled through accounts of commercial banks.

For the Listed Product Clearing Business, because of the diverse composition of Clearing Participants, accounts at both the BOJ and commercial banks are used, based on each Clearing Participant's needs.

**Key Consideration 9:**

**An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk-management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressure in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.**

Stress Testing of Liquidity

JSCC conducts stress testing for each currency, at least once a day, to verify that Liquidity Supply Facilities are sufficient for potential liquidity needs.

JSCC's stress testing framework includes a range of scenarios including the largest historical price fluctuations and extreme but plausible hypothetical scenarios.

The results of daily stress tests are reported to the CRO, the President and CEO and other executive directors, and the heads of related divisions. Additionally, as part of compliance with the Risk Management Policy in relation to liquidity risk, reports are made to the Risk Oversight Committee on a monthly basis, and to the Board of Directors on a quarterly and annual basis. If a problem with Liquidity Supply Facilities is identified as a result of stress testing, JSCC will examine a necessary measure, including revisions to the framework.

The liquidity framework via JGB repo transactions for OTC JGBs utilizes Clearing Participants and is based upon an assumption that, when procuring liquidity from the market is difficult, Clearing Participants will access the supplementary lending of the BOJ. As haircuts are applied to JGBs when Clearing Participants access the supplementary lending of the BOJ, Clearing Participants may also select repo transactions with JSCC with haircuts applied. At such

times, because Clearing Participant initial margin covers the equivalent haircut, JSCC confirms daily that it can cover equivalent haircuts with initial margin deposits, even in the case where all Clearing Participants select repo transactions with haircuts applied.

The results of this confirmation are reported via the same framework as the stress tests of Liquidity Supply Facilities, above.

#### Stress scenario

JSCC conducts stress tests according to various extreme but plausible scenarios. The scenarios are conservative and reference related historical market data.

For stress scenarios used to confirm the sufficiency of the Liquidity Supply Facilities, JSCC uses historical scenarios as a base, and establishes other appropriate scenarios based on the nature of the products involved.

Historical scenarios are based on market data going back at least 20 years, including the largest fluctuations since the opening of the listed products market. This range includes stress events such as Black Monday (1987), the Asian Financial Crisis (1997-1998), LTCM's bankruptcy (1998), the September 11th attacks in the U.S. (2001), the Lehman Shock (2008), the Great East Japan Earthquake (2011), and the Swiss Franc Shock (2015).

For IRS transactions, JSCC utilizes stress scenarios that take into account the features of historical yield curves identified through principal component analysis.

Furthermore, JSCC uses forward-looking scenarios, including hypothetical stress scenarios featuring future expectations.

JSCC assumes the default of the largest Clearing Participant (including affiliates of such Clearing Participant) for each of its Clearing Businesses, except for CDS, where it assumes the simultaneous default of the largest 2 Clearing Participants (including affiliates of such Clearing Participants) due to the complexity of the product.

#### Review and Validation of Stress Scenarios

JSCC validates the scenarios, models, and parameters used in stress testing of Liquidity Supply Facilities at least monthly. JSCC ensures that stress scenarios reflect the most recent market prices and positions.

JSCC's Risk Management Office the overall risk management model, including Liquidity Supply Facilities, on at least an annual basis, and makes recommendations regarding revisions to be considered. The results of these validations are reported to the Board of Directors.

#### **Key Consideration 10:**

**An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event so that it can continue to operate in a safe and sound manner.**

JSCC has comprehensive rules<sup>39</sup> concerning a change of settlement cut-off times and deferment of settlement. Under these rules, however, settlement cut-off times cannot be changed nor can settlement be deferred, even in the default of one or more Clearing Participant. JSCC assumes that settlement will be conducted according to the times prescribed in its rules. This is supported by sufficient and timely access to Liquid Supply Facilities and liquidity via JGB repo transactions.

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<sup>39</sup> Listed Products Clearing Business Rules Article 80  
CDS Clearing Business Rules Article 113  
IRS Clearing Business Rules Article 113  
OTC JGB Clearing Business Rules Article 91

## Settlement

### **Principle 8: Settlement Finality**

*An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.*

#### **Key Consideration 1:**

**An FMI's rules and procedures should clearly define the point at which settlement is final.**

#### Point of Settlement Finality

JSCC conducts settlement via 2 methods: securities settlement and fund settlement. For both methods, the point of settlement finality is when the transfer has been made from the Clearing Participant's account with a CSD or Fund Settlement Bank. For fund settlement in a currency other than Japanese yen, the point of settlement finality is when either the intrabank transfer has been made from the Clearing Participant's account at the Fund Settlement Bank, or the credit to JSCC's account is made in the settlement process between different Fund Settlement Banks.

#### Fulfillment of Obligations pertaining to Settlement

Settlement methods between JSCC and Clearing Participants are specified in JSCC's Business Rules, and obligations are fulfilled at the point where settlement has been conducted according to the Business Rules.

#### Legal Certainty of Finality

JSCC specifies in its Operational Procedures that securities settlement or fund settlement are irrevocable after the completion of the book-entry transfer. The Operational Procedures prescribe procedures to be observed by Clearing Participants based on JSCC's Business Rules, and are legally binding on Clearing Participants. This ensures the legal certainty for settlement finality.

#### **Key Consideration 2:**

**An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS or SSS should consider adopting RTGS or multiple-batch processing during the settlement day.**

The processes and operations of each of JSCC's Clearing Businesses are designed to provide for final settlement no later than the end of the value date or on the day the receipt/payment is due by specifying the settlement date and settlement cut-off time therein.

JSCC has never experienced an incident where the final settlement is deferred past the scheduled settlement date.

Settlement is made on a real-time basis during the day. The settlement is final when JSCC's payment instructions have been carried out in a Clearing Participant's Fund Settlement Bank or CSD. Clearing Participants can confirm fulfillment of final settlement via JSCC's clearing system or a CSD's system as necessary.

#### **Key Consideration 3:**

**An FMI should clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.**

JSCC has Operational Procedures in place for each Clearing Business. The Operational Procedures prescribe operational procedures for Clearing Participants based on JSCC's Business Rules, and the point when transfer instructions become irrevocable.

Settlement instructions to JSCC may not be revoked after completion.

Provisions and authority regarding revocation of transfer instructions prior to the completion of a transfer are prescribed in the rules and procedures of each CSD.

## **Principle 9: Money Settlements**

***An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.***

### **Key Consideration 1:**

**An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.**

For Listed Products, CDS and OTC JGB Clearing Businesses, JSCC only uses Japanese Yen for settlement. For IRS Clearing Business, in addition to Japanese yen, JSCC uses currencies for the settlement of foreign currency denominated IRS.

For each of its Clearing Businesses, JSCC uses an account with the BOJ, the central bank, whenever possible. Specifically, all JPY settlements for the CDS, IRS, and OTC JGB Clearing Businesses are conducted through a BOJ account.

For the IRS Clearing Business, fund settlement in non-JPY currencies are performed through an account of a commercial bank. JSCC designated two commercial banks as Fund Settlement Banks for fund settlements in foreign currencies, and Clearing Participants may select to perform fund settlement through an account at either of those Fund Settlement Banks.

For the Listed Products Clearing Business, due to the diversity of Clearing Participants, settlement is possible through either a BOJ account or an account at one of six commercial banks designated by JSCC as Fund Settlement Banks for fund settlement in Japanese yen, based on the choice of each Clearing Participant.

For Japanese yen fund settlement, JSCC holds a settlement account in its own name at the six aforementioned Fund Settlement Banks and BOJ. Settlement between each Clearing Participant and JSCC is conducted via book-entry transfer between the accounts of the Clearing Participant and JSCC, at the bank designated by the Clearing Participant. This book-entry transfer is conducted between accounts at the same bank, either with BOJ or any of the Fund Settlement Banks, and is not performed between different banks.

For settlement in currencies other than Japanese yen, JSCC holds a settlement account in the two above-mentioned Fund Settlement Banks, and fund settlement between a Clearing Participant and JSCC is conducted via account transfer between the Clearing Participant's account and JSCC's account, at the bank selected by the Clearing Participant.

### **Key Consideration 2:**

**If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk.**

JSCC only designates commercial banks which satisfy its "Policies for Designation of Japanese Yen Fund Settlement Banks" and "Policies for Designation of Foreign Currency Fund Settlement Banks" as Fund Settlement Banks. Fund Settlement Banks approved by JSCC are those with a presence in Japan, with sufficient capitalization and high credit. Furthermore, all Fund Settlement Banks are subject to supervision by the JFSA and monitoring by BOJ, or supervision by financial regulators at the countries of their establishment.

### **Key Consideration 3:**

**If an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness,**

**capitalisation, access to liquidity, and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks.**

In order to eliminate settlement risk arising from credit risk, accompanying the use of commercial bank money, to the extent possible, JSCC designates Fund Settlement Banks according to the “Policies for Designation of Japanese Yen Fund Settlement Banks” and “Policies for Designation of Foreign Currency Fund Settlement Banks,” as mentioned in Key Consideration 2 of this Principle, selecting commercial banks with sufficient capitalization and high credit.

Within the “Policies for Designation of Japanese Yen Fund Settlement Banks” and “Policies for Designation of Foreign Currency Fund Settlement Banks,” JSCC requires banks to be subject to the supervision of a regulator, maintain stable business operations and profitability, and have sufficient capitalization and high credit above a predetermined level.

JSCC confirms the soundness of Fund Settlement Bank finances by receiving regular reports from each commercial bank designated as a Fund Settlement Bank on their financial conditions and confirming their daily settlement operations run smoothly. In this way, JSCC continuously monitors the banks’ compliance with the “Policies for Designation of Japanese Yen Fund Settlement Banks” and “Policies for Designation of Foreign Currency Fund Settlement Banks.”

Furthermore, by designating the BOJ and six Fund Settlement Banks for Japanese yen and two Fund Settlement Banks for currencies other than Japanese yen, JSCC has distributed the risk of being unable to conduct settlement operations due to a Fund Settlement Bank’s bankruptcy. JSCC also monitors the status of concentration of settlement across the Fund Settlement Banks on a monthly basis.

All JSCC accounts at Fund Settlement Banks are covered by the Japanese Deposit Insurance System, thereby limiting credit risk arising from the commercial banks.

**Key Consideration 4:**

**If an FMI conducts money settlements on its own books, it should minimise and strictly control its credit and liquidity risks.**

JSCC conducts all money settlements through Fund Settlement Banks and BOJ. No money settlement is conducted on its own books.

**Key Consideration 5:**

**An FMI’s legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks.**

Central Bank Money Settlement

For settlement at the central bank, BOJ’s “Rules on Current Deposit Account” Article 5, Paragraph 3 states that “instruction of fund transfer shall be irrevocable.” Therefore, such transfers are final upon completion of the transfer process in the BOJ Financial Network System (“BOJ-NET”).

Commercial Bank Money Settlement

For settlement using Fund Settlement Banks, transfers between JSCC and Clearing

Participants are conducted by wire-transfer. The agreements between JSCC and Fund Settlement Banks specify the time at which funds shall be transferred to the relevant JSCC account for Japanese yen fund settlement. For fund settlement in foreign currencies, Clearing Participants are required to send fund transfer instructions to the Fund Settlement Bank in time so the transfer instructions will arrive by the remittance instruction receipt cutoff time designated by JSCC.

This is the established approach for fund settlement in the Japanese financial market, which JSCC views as a safe and robust settlement system.

Settlement is considered to be final and irrevocable once the funds are credited to the receiver's bank account. JSCC understands that these arrangements are supported by Japanese laws and regulations.

## **Principle 10: Physical Deliveries**

***An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.***

### **Key Consideration 1:**

**An FMI's rules should clearly state its obligations with respect to the delivery of physical instruments or commodities.**

JSCC conducts most of the securities settlement via the book-entry transfer system of the CSD. Currently, the only product subject to physical delivery between JSCC and Clearing Participants are Investment Securities issued by the BOJ.

JSCC's Business Rules prescribe that Investment Securities issued by the BOJ are to be physically delivered between a Clearing Participant and JSCC and specify the settlement cut-off time for such to fulfill delivery obligations.<sup>40</sup>

JSCC's Business Rules are publicly available through its website.

In addition to the Business Rules, JSCC provides Clearing Participants with the "Operational Procedures for Non-DVP Settlement," which prescribe detailed operational procedures related to physical delivery. This facilitates Clearing Participants to conduct operations with a full understanding of the physical delivery process.

### **Key Consideration 2:**

**An FMI should identify, monitor, and manage the risks and costs associated with the storage and delivery of physical instruments or commodities.**

#### Storage/Delivery Risk related to Physical Instruments

JSCC views (1) principal risk, (2) risk of theft/destruction, and (3) forgery risk to be the primary risks associated with storage/delivery of physical securities (securities certificates). Measures for these risks are outlined below.

#### Measures for Principal Risk

The aforementioned "Operational Procedures for Non-DVP Settlement" prescribe that receiving participants must pay settlement funds to JSCC prior to receiving securities from JSCC, and that delivering participants must deliver securities to JSCC before receiving payment from JSCC. Through this process, JSCC eliminates the principal risk associated with physical delivery.

#### Risk of Theft/Destruction

The process for receipt and delivery of securities from the delivering participant to JSCC and from JSCC to the receiving participant is completed on the same day. As such, the period that JSCC holds the securities is extremely short and the risk of theft/destruction is limited. Securities received are locked in a fireproof safe to reduce the risk of theft and destruction.

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<sup>40</sup> Listed Products Clearing Business Rules Articles 47, 48, and 56

### Forgery Risk

In order to reduce the risk of forgeries, JSCC confirms the authenticity of the certificates at the time of transfer and records the serial number of transferred certificates to enable tracking.

## CSDs and Exchange-of-Value Settlement Systems

### **Principle 11: Central Securities Depositories**

*A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risk associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilized or dematerialized form for their transfer by book entry.*

Because JSCC is not a central securities depository, this principle does not apply.

## **Principle 12: Exchange-of-Value Settlement Systems**

***If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transaction), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.***

### **Key Consideration 1:**

**An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs.**

### Use of DVP Settlement

JSCC uses a DVP settlement framework which links the delivery of securities with payment for the settlement of listed cash securities (excluding Investment Securities issued by the BOJ), listed JGBs, and OTC JGBs, between JSCC and Clearing Participants. This framework eliminates principal risk associated with the settlement of cash securities.

#### (1) DVP Settlement of Listed Cash Securities (Net-Net)

JSCC uses Net-Net DVP settlement for listed cash securities (Model 3 in CPSS's "Delivery Versus Payment in Securities Settlement System"). Under this scheme, the value of securities JSCC delivers to a Clearing Participant is limited to the value of funds and securities received by JSCC from such Clearing Participant. This prevents JSCC from fulfilling obligations to the Clearing Participant in excess of that which the Clearing Participant fulfills toward JSCC, thereby eliminating the principal risk of a Clearing Participant default.

Transfer of funds and securities according to this scheme is conducted between the accounts of a Clearing Participant and JSCC, with such transfers being final at the point they are executed. (Please see Principle 8 (Settlement Finality).) Additionally, when delivery of securities to a Clearing Participant is withheld, such securities are held within JSCC's account until delivery in order to protect them from third-party claims, such as the creditors of the Clearing Participant.

#### (2) DVP Settlement of JGBs (Gross-Gross)

For settlement of listed JGBs and OTC JGBs, JSCC uses the Gross-Gross (Model 1 in CPSS's "Delivery Versus Payment in Securities Settlement System" (1992)) DVP settlement (RTGS (Real-Time Gross Settlement)) provided by BOJ, in its role as the CSD for JGBs, as a BOJ participant. Under this scheme, settlement of cash and securities between a Clearing Participant and JSCC is fulfilled simultaneously on a gross basis and is final at the time of transfer. (Please see Principle 8 (Settlement Finality).)

## Default Procedures

### **Principle 13: Participant-Default Rules and Procedures**

*An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.*

#### **Key Consideration 1:**

**An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following default.**

#### Clearing Participant Default

JSCC's rules set out the details of the default management procedures, including the events constituting a default, the sequencing of the process and obligations of parties involved. JSCC will declare that a Clearing Participant is in default if such participant is, or is likely to be, unable to perform its obligations, according to the determination of JSCC's senior management. If a default is declared, JSCC can take actions to contain losses by halting clearing of new transactions from the defaulter and liquidating the defaulter's positions.

JSCC's methods for disposing of positions vary according to the nature of the product for each Clearing Business. Specifically, offsetting transactions are conducted in the market for listed products, and an auction involving non-defaulting Clearing Participants is used for CDS, IRS, and OTC JGBs. In such cases, for CDS and IRS transactions, hedge transactions are to be promptly executed for the defaulter's positions based on the advice of the related Clearing Business's advisory committee (CDS Default Management Committee, IRS Default Management Committee), in order to prevent the increase of losses before the auction.

If a defaulting Clearing Participant holds positions in foreign currency denominated IRS, the default management process, including hedge transactions, will be conducted for each currency.

When disposing of positions, customer positions and collateral related to listed derivatives, CDS, and IRS transactions are able to be transferred to non-defaulting Clearing Participants. JSCC does not receive deposits of customer collateral for listed Cash Products and OTC JGBs. JSCC uses its loss compensation financial resources according to its rules to cover losses arising in the default process.

Even when a Clearing Participant default occurs, JSCC will fulfill settlement according to the regular schedule. In order to fulfill settlement in this manner, JSCC maintains Liquidity Supply Facilities for procuring necessary liquidity. Additionally, JSCC has established a framework for liquidity via JGB repo transactions with Clearing Participants for OTC JGBs. See Principle 7 (Liquidity Risk) for further details.

#### Composition of Loss Compensation Financial Resources

JSCC has established a loss compensation framework for each Clearing Business. This prevents losses from a single Clearing Business impacting the others.

Below is an overview of the loss compensation financial resources for each Clearing

## Business.

### (1) Listed Products Loss Compensation

For the Listed Product Clearing Business, losses resulting from a Clearing Participant default will be covered in the following order:

- 1) The defaulting Clearing Participant's margin, Clearing Fund, and other collateral (including collateral deposited for other Clearing Businesses, if any remains)

\*See Principle 6 (Margin) for margin and Principle 4 (Credit Risk) for Clearing Fund.

- 2) Contribution from the relevant market operator
  - The market operators of the listed products which JSCC clears (exchange/PTS) contributes funds to cover losses arising from such products according to an agreement with JSCC.
- 3) Contribution from JSCC
- 4) Clearing Fund contributions from non-defaulting Clearing Participants
  - Non-defaulting Clearing Participants Clearing Fund contributions are consumed on a pro rata basis according to the risk amount of each participant.
  - If a loss consumes all or part of the Clearing Fund contributions from a non-defaulting Clearing Participant, such contribution shall be replenished by the business day following such consumption.
- 5) Additional contribution from non-defaulting Clearing Participants
  - If the loss resulting from a Clearing Participant default exceeds the sum of all the preceding financial resources, the non-defaulting Clearing Participants are required to cover any remaining losses by an additional contribution called a "Special Clearing Charge." The Special Clearing Charge is calculated separately for Securities Clearing Qualification, JGB Futures Clearing Qualification, and Index Futures Clearing Qualification, and the total amount is distributed on a pro rata basis among Clearing Participants holding such qualifications according to risk amount.

### (2) CDS/IRS Loss Compensation

For the CDS and IRS Clearing Businesses, losses resulting from a Clearing Participant default in each Clearing Business will be covered in the following order:

- 1) The defaulting Clearing Participant's margin, and Clearing Fund (including collateral deposited for other Clearing Businesses, if any remains)

\*See Principle 6 (Margin) for margin and Principle 4 (Credit Risk) for Clearing Fund.

- 2) Contribution from JSCC
  - JSCC contributes funds in the second and third tiers.
- 3) Clearing Fund contributions from non-defaulting Clearing Participants and an additional contribution from JSCC
  - Clearing Fund contributions from non-defaulting Clearing Participants and JSCC's additional contribution are consumed on a pro rata basis.
  - Clearing Fund contributions from non-defaulting Clearing Participants are consumed according to the risk amount of each participant.
  - The Clearing Fund contributions from non-defaulting Clearing Participants are capped at a certain level. For further defaults occurring during the Capped Period, such contributions are capped at the required Clearing Fund amount immediately preceding the initial default.
  - The amount of Clearing Fund contribution from non-defaulting Clearing Participants consumed is determined according to the quality of participation in the auction for disposing of the defaulter's positions. The Clearing Fund contributions of Clearing Participants with a lower level of auction participation will be consumed first.
  - If a loss consumes all or part of the Clearing Fund contributions from the non-defaulting Clearing Participants, then contributions shall be replenished following the end of the Capped Period. To cover credit risk during the Capped Period, JSCC calculates the required Clearing Fund for each non-defaulting Clearing Participant on a daily basis. If the required Clearing Fund exceeds the required Clearing Fund for the day immediately

preceding the first default, JSCC will call for the additional amount as Default Contingent Margin. The Default Contingent Margin is a defaulter-pay type collateral to be used as financial resources to cover losses arising from the potential default of the Clearing Participant that deposited the Default Contingent Margin.

- 4) Additional contribution from non-defaulting Clearing Participants
  - If the loss resulting from a Clearing Participant default exceeds the sum of all the preceding financial resources, an additional contribution called a “Special Clearing Charge” is required from the non-defaulting Clearing Participants. The Special Clearing Charge for defaults occurring during a Capped Period is capped at the required amount of Clearing Fund immediately preceding the first default.
  - The Special Clearing Charge shall be applied according to quality of participation the auction for disposing of the defaulter’s positions. The charge will be first applied to Clearing Participants with lower level of auction participation.
- 5) Variation Margin Haircutting
  - If the loss resulting from a Clearing Participant default exceeds the sum of all the preceding financial resources, all non-defaulting Clearing Participants with positive variation margin (variation margin receiver) from the default date are required to compensate the loss through Variation Margin Haircutting, to a maximum of the relevant variation margin amount.

If a defaulting Clearing Participant holds positions in foreign currency denominated IRS, the loss compensation financial resources are allocated for each currency. The allocated loss compensation financial resources are applied in the order mentioned above, for each currency. If there is any surplus in the loss compensation financial resources allocated to each currency, the surplus will be re-allocated to other currencies.

If a defaulting Clearing Participant is using cross margining, the gain/loss from cross margined JGB Futures are covered by the loss compensation financial resources under the IRS Clearing Business. However, if a loss remains after the application of the loss compensation financial resources up to Tier 4, any remaining loss shall be allocated to IRS and JGB Futures according to the final loss from the position in JPY-denominated IRS and the position in cross margined JGB Futures. After such allocation, any loss related to JPY-denominated IRS will be covered by Tier 5, with losses related to the position in JGB Futures being covered according to the Listed Products Loss Compensation, described in (1) above.

### (3) OTC JGB Loss Compensation

For the OTC JGB Clearing Business, losses resulting from a Clearing Participant default will be covered by loss compensation financial resources in the following order:

- 1) The defaulting Clearing Participant’s margin, and Clearing Fund (including collateral deposited for other Clearing Businesses, if any remains)  
*\*See Principle 6 (Margin) for margin and Principle 4 (Credit Risk) for Clearing Fund.*
- 2) Contribution from JSCC
  - JSCC contributes funds in the second, third and fifth tiers.
- 3) Clearing Fund contributions from non-defaulting Clearing Participants and an additional contribution from JSCC
  - The losses allocated to non-defaulting Clearing Participants and JSCC will be pro-rated based on their proportion of the total level of combined resources in this tier.
  - The Clearing Fund contributions of non-defaulting Clearing Participants will be allocated according to losses (“Trust Losses”) based on transactions (“Trust Transactions”) pertaining to trusts where the Clearing Participant is the trust bank, and other losses (“Non-Trust Losses”). The allotment of Trust Losses will be made based on the ratio of the defaulter’s positions made up by Trust Transactions on an underlying transaction basis. The remaining losses after the allocation of Trust Losses shall be the Non-Trust

- Losses. The Trust Losses and Non-Trust Losses will be allocated to non-defaulting Clearing Participants according to the following method:
- ▶ Trust Losses shall be allocated to each relevant non-defaulting Clearing Participant pro-rata, based on their ratio of underlying transactions with the defaulting Clearing Participant.
  - ▶ Non-Trust Losses shall be allocated to each relevant non-defaulting Clearing Participant pro-rata, based on their Clearing Fund contribution.
- The amount of loss borne by non-defaulting Clearing Participants' Clearing Fund contributions is capped. Specifically, for defaults during the Capped Period, the cap shall be the required amount of Clearing Fund immediately preceding the first default.
  - The amount of Clearing Fund contribution from non-defaulting Clearing Participants consumed is determined according to the quality of participation in the auction for disposing of the defaulter's positions. The Clearing Fund contributions of Clearing Participants with a lower level of auction participation will be consumed first.
  - If a loss consumes all or part of the Clearing Fund contributions from the non-defaulting Clearing Participants, then contributions shall be replenished following the end of the Capped Period. To cover credit risk during the Capped Period, JSCC calculates the required Clearing Fund for each non-defaulting Clearing Participant on a daily basis. If the required Clearing Fund exceeds the required Clearing Fund for the day immediately preceding the first default, JSCC will call for the additional amount as Default Contingent Margin. The Default Contingent Margin is a defaulter-pay type collateral to be used as financial resources to cover losses arising from the default of the Clearing Participant that deposited that Default Contingent Margin.
- 4) Additional contribution from non-defaulting Clearing Participants
- In cases where the losses allocated as Trust Losses and Non-Trust Losses exceed the compensation resources of non-defaulting Clearing Participants in the third tier, JSCC will charge an additional contribution called a "Special Clearing Charge" to the relevant non-defaulting Clearing Participants, to cover any remaining losses. The "Special Clearing Charge" will be allocated pro-rata to each non-defaulting Clearing Participant, according to the following method:
    - ▶ The "Special Clearing Charge" for Trust Losses shall be allocated to each relevant non-defaulting Clearing Participant based on their ratio of underlying transactions with the defaulting Clearing Participant.
    - ▶ The "Special Clearing Charge" for non-Trust Losses shall be allocated to each relevant non-defaulting Clearing Participant based on their required amount of Clearing Fund. In such case, the "Special Clearing Charge" for defaults which occur during the Capped Period shall be capped at the required amount of Clearing Fund immediately preceding the first default.
- 5) Clearing Fund contributions from non-defaulting Clearing Participants with Trust Transactions and an additional contribution from JSCC
- The losses borne by the Clearing Fund contribution of non-defaulting Clearing Participants with Trust Transactions and the contribution of JSCC will be pro-rated based on their proportion of the total level of combined resources in this tier.
  - The losses borne by the Clearing Fund contribution of non-defaulting Clearing Participants with Trust Transactions shall be allocated pro-rata, based on the ratio of each Clearing Participant's remaining Clearing Fund contribution.
  - The losses borne by the Clearing Fund contribution of non-defaulting Clearing Participants with Trust Transactions is capped. For defaults during the Capped Period, the cap shall be the required amount of Clearing Fund immediately preceding the first default.
  - The amount of Clearing Fund contribution from non-defaulting Clearing Participants with Trust Transactions consumed is determined according to the quality of participation in the auction for disposing of the defaulter's positions. The Clearing Fund contributions of Clearing Participants with a lower level of auction participation will be consumed first.
- 6) Additional contribution from non-defaulting Clearing Participants with Trust Transactions

- In cases where the losses resulting from the Clearing Participants default exceed the compensation resources up to the fifth tier, JSCC will charge an additional contribution called a “Special Clearing Charge” to non-defaulting Clearing Participants with Trust Transactions.
  - The “Special Clearing Charge” shall be allocated to non-defaulting Clearing Participants with Trust Transactions pro-rata, based on their ratio of remaining “Special Clearing Charge.” In such cases, the “Special Clearing Charge” for defaults which occur during the Capped Period shall be capped at the required amount of Clearing Fund immediately preceding the first default.
- 7) Variation Margin Haircutting
- If the loss resulting from a Clearing Participant default exceeds the sum of all the preceding financial resources, all non-defaulting Clearing Participants with positive variation margin (variation margin receiver) from the default date are required to compensate the loss through Variation Margin Haircutting, to a maximum of the relevant variation margin amount.

**Key Consideration 2:**

**An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.**

JSCC provides for default procedures in its rules and manuals. These rules and manuals specify procedures including determination of default, liquidation of the defaulting Clearing Participant’s positions, loss compensation resources, and measures for such procedures.

These procedures also provide for information sharing related to the default, including communications with regulators, notices to Clearing Participants, and public announcement of information. The procedures also specify the role and responsibility of each of JSCC’s divisions and involvement of officers.

Additionally for the CDS, IRS, and OTC JGB Clearing Businesses, JSCC has established a framework requiring the participation of non-defaulting Clearing Participants in the liquidation of the defaulting Clearing Participant’s positions. Roles and responsibilities of non-defaulting Clearing Participants in default procedures are set out in JSCC’s rules.

In order to ensure the effectiveness of default procedures, JSCC conducts fire-drills at least once a year. Based on the results, JSCC will revise rules and manuals as necessary. Some of JSCC’s Clearing Businesses require Clearing Participant involvement in default procedures, including fire drills, where JSCC provides the results as feedback.

**Key Consideration 3:**

**An FMI should publicly disclose key aspects of its default rules and procedures.**

JSCC’s default procedures are provided for in the rules for each of JSCC’s Clearing Businesses. These rules are available on JSCC’s website.

When a Clearing Participant defaults, JSCC discloses important information pertaining to the default procedures including the halt of clearing for the defaulting Clearing Participant, position liquidation method, handling of customer positions, and results of allocation of any losses arising from the Clearing Participant’s default.

**Key Consideration 4:**

**An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.**

In order to ensure the effectiveness of default procedures, JSCC conducts fire-drills for each Clearing Business at least once a year. All related parties, including Clearing Participants, participate in these fire-drills. Based on the results, JSCC will revise rules and manuals as necessary.

Additionally, JSCC will revise rules and manuals related to default when there have been significant revisions to business operations. The results of fire-drills are reported to the Risk Oversight Committee and the Board of Directors.

## **Principle 14: Segregation and Portability**

***A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.***

### **Key Consideration 1:**

**A CCP should, at a minimum, have segregation and portability arrangements that effectively protect a participant's customers' positions and related collateral from the default or insolvency of that participant. If the CCP additionally offers protection of such customer positions and collateral against the concurrent default of the participant and a fellow customer, the CCP should take steps to ensure that such protection is effective.**

### **Segregated Management of Customer Positions and Margin**

For each Clearing Business, JSCC has adopted differing segregation arrangements for customer protection.

For CDS and IRS transactions, Clearing Participant's proprietary and customer positions/margin are managed on a gross basis. Customer transactions/margin are segregated in individual customer accounts with JSCC at all times, regardless of whether or not the customer is an affiliate of the Clearing Participant. JSCC has established this framework to protect margin related to customer positions from the default or insolvency of a Clearing Participant.

For listed derivatives, customer positions/margin are managed on a gross basis in an omnibus account with JSCC, separate from the Clearing Participant's proprietary account, in consideration of cross-border and other diverse customer types. Individual customer positions/margin are managed by the Clearing Participant. JSCC has the authority to request information related to individual customer positions/margin from the Clearing Participant when necessary, and has a framework in place to protect such margin related to customer positions from the default or insolvency of a Clearing Participant<sup>41</sup>. See the following "Transfer of Positions/Margin" section for further details.

For OTC JGB Clearing Businesses, JSCC does not clear customer transactions. As such there are no customer positions for JSCC to protect.

For listed Cash Products, JSCC would conduct netting for all of a defaulting Clearing Participant's transactions. As such, JSCC only receives collateral deposits from Clearing Participants, making protection of customer collateral unnecessary. In such cases, the FIEA requires the segregated management of customer securities and cash by Clearing Participants, and protection of such assets is achieved under alternative schemes in Japan. Specifically, the Japan Investor Protection Fund, established according to the FIEA, provides a customer protection scheme for small-scale customers, while JASDEC DVP Clearing Corporation provides DVP Settlement Services for NETDs (non-exchange transaction deliveries) for large-scale (professional) customers. These schemes provide a means of eliminating principal risk.

### **Transfer of Positions/Margin**

JSCC has adopted position transfer arrangements for customer protection, in accordance with the nature of the products it clears.

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<sup>41</sup> Rules on Margins, etc. for Futures and Options Contracts Article 26

For clearing of listed derivatives, CDS, and IRS, when a Clearing Participant defaults, customers (customers are limited to affiliates of a Clearing Participant for the CDS Clearing Business) may transfer their own positions and margin to another Clearing Participant without the consent of the defaulting Clearing Participant. In such case, agreement is necessary from the Clearing Participant receiving the transfer of positions/margin.

For listed derivatives, the Clearing Participant receiving the transfer is required to express its consent to the exchange and to follow the exchange's prescribed procedures, after which JSCC conducts the transfer based on the exchange's decision<sup>42</sup>. For CDS and IRS, the customer applies to JSCC via the Clearing Participant receiving the transfer, after which JSCC will confirm that the required amount of margin pertaining to the transferring positions has been deposited by such Clearing Participant. After this confirmation, JSCC transfers the positions and margin of the relevant customer.

Clearing Participants may determine whether they accept a transfer of positions and margin based on an agreement with the transferring customer.

There are no customer positions for transfer in relation to the Cash Products and OTC JGB Clearing Businesses.

#### Protection from Fellow Customer Risk

JSCC has adopted arrangements to protect customers from the risk of default by another customer using the same Clearing Participant ("Fellow Customer Risk"), according to the nature of the products it clears.

For clearing of listed derivatives, customer margin is managed in a gross omnibus account, and the right of a customer to request return of its own margin is specified in JSCC's Business Rules<sup>43</sup>. These arrangements eliminate Fellow Customer Risk.

Japanese laws and regulations, JSCC's Business Rules, and the subordinate rules<sup>44</sup> require Clearing Participants to deposit customer margin with JSCC on a gross basis as an agent for their customers. This means that Clearing Participants are unable to offset the positions of each customer with those of other customers when depositing margin.

In order to facilitate the smooth transfer of customer positions/margin or return of customer margin at the time of a Clearing Participant's default, Clearing Participants are obligated by JSCC's rules to promptly provide details regarding customer positions/margin deposited with JSCC in response to JSCC's request (including in times of market stress)<sup>45</sup>. JSCC regularly conducts reviews to ensure Clearing Participants are able to comply with this requirement.

For CDS and IRS Clearing Businesses, Clearing Participants must deposit the full amount of customer margin with JSCC, where it is individually segregated in accounts for each customer<sup>46</sup>,

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<sup>42</sup> OSE Rules on Margin and Transfer of Unsettled Contracts Pertaining to Futures/Options Contract Chapter 3, Section 3

Rules on Margins, etc. for Futures and Option Contracts Articles 28 and 30

<sup>43</sup> Article 24 of the Rules on Margins, etc. for Futures and Option Contracts specifies that each customer has a right to claim refund of margin deposited with JSCC through a Clearing Participant, which is acting as an agent. The amount of margin which each customer has a right to claim refund for is specified as the amount of margin deposited with JSCC less the unfulfilled obligations pertaining to futures/options contracts owed by the customer to the Clearing Participant. This means that the margin each customer deposits with JSCC will not be used to compensate the losses of other customers.

<sup>44</sup> FIEA Article 43-2

Rules on Margins, etc. for Futures and Option Contracts Article 24

<sup>45</sup> Rules on Margins, etc. for Futures and Option Contracts Article 26

<sup>46</sup> CDS Clearing Business Rules Article 59

on a gross basis. JSCC has no rule that allows for the netting of positions recorded in different customer accounts at JSCC.

#### Legal Basis for Customer Protection

Japanese law stipulates that in the event of a Clearing Participant default, JSCC's rules shall be applied in preference to general Japanese Bankruptcy Act, for the management of outstanding positions, between the defaulting Clearing Participant and JSCC<sup>47</sup>.

Therefore, JSCC has the legal powers to liquidate the proprietary positions of a defaulting Clearing Participant and to transfer or liquidate the customer positions of a defaulting Clearing Participant, as stipulated in JSCC's rules.

In the event of the commencement of insolvency proceedings in a foreign jurisdiction against a Clearing Participant, the effect of such insolvency proceedings extend to Japan only upon a Japanese court's order of recognition of such proceedings, based on the provisions of the "Act on Recognition of and Assistance for Foreign Insolvency Proceedings."

Such proceedings in a foreign jurisdiction shall only apply to the properties of a defaulting Clearing Participant upon the issuance of an assistance order by a Japanese court. As this order will be issued if the relevant proceedings should not be a major obstacle for the bankruptcy proceedings in Japan, such proceedings in a foreign jurisdiction are expected to be similar to those of Japan.

#### **Key Consideration 2:**

**A CCP should employ an account structure that enables it readily to identify positions of a participant's customers and to segregate related collateral. A CCP should maintain customer positions and collateral in individual customer accounts or in omnibus customer accounts.**

Please see Key Consideration 1 of this Principle for how customer positions/margin are segregated from those of Clearing Participants.

JSCC requires the deposit of margin based on customer positions for CDS, IRS, and listed derivatives transactions. For CDS and IRS transactions, customers are required to deposit the amount required for initial margin and variation margin. For listed derivatives, they are required to deposit the amount required for initial margin.

JSCC manages customer positions for CDS and IRS transactions in individual accounts, and those for listed derivatives in an omnibus account. Customer margin is required to be deposited via Clearing Participants acting as agents to JSCC on a gross basis.

As in Key Consideration 1 of this Principle, customer margin is protected from Fellow Customer Risk by segregated management as required by the FIEA, JSCC's Business Rules, and subordinate rules.

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IRS Clearing Business Rules Article 59  
<sup>47</sup> FIEA Article 156-11-2

**Key Consideration 3:**

**A CCP should structure its portability arrangements in a way that makes it highly likely that the positions and collateral of a defaulting participant's customers will be transferred to one or more other participants.**

As in the preceding Key Consideration 1, JSCC allows for the transfer of customer positions/margin. In addition to such procedures being stipulated in JSCC's rules, the process is publicly disclosed when a Clearing Participant defaults. Furthermore, the effectiveness of JSCC's transfer arrangements was demonstrated during the 2008 Lehman Brothers Crisis.

**Key Consideration 4:**

**A CCP should disclose its rules, policies, and procedures relating to the segregation and portability of a participant's customers' positions and related collateral. In particular, the CCP should disclose whether customer collateral is protected on an individual or omnibus basis. In addition, a CCP should disclose any constraints, such as legal or operational constraints, that may impair its ability to segregate or port a participant's customers' positions and related collateral.**

The details of the segregated management and position/margin transfer arrangements for each of JSCC's Clearing Businesses are specified in its Business Rules and related rules (for listed derivatives, this include the exchange's rules). These rules are publicly available on JSCC's and the exchange's websites. Customer margin is protected from the risk of a Clearing Participant default and Fellow Customer Risk (See Key Considerations 2 through 3 of this Principle).

Japanese law stipulates that in the event of a Clearing Participant default, JSCC's rules shall be applied in preference to general Japanese Bankruptcy Act, for the management of outstanding positions, between the defaulting Clearing Participant and JSCC. As such, JSCC views the risk, cost and uncertainty related to segregated management and position/margin transfer arrangements to be extremely limited.

## Business Risk Management and Operation Risk Management

### **Principle 15: General Business Risk**

*An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialize. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.*

#### **Key Consideration 1:**

**An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.**

General business risks at JSCC are the risks and potential losses that may arise from JSCC's administration and operation and that are not related to the default of a Clearing Participant, nor are separately covered under credit or liquidity risk management framework.

These risks could result in losses from poor execution of business strategy, operational risk (including IT system risk and other operational risk), investment risk, negative cash flows, or unexpected and excessively large operating expenses.

In addition to continuously confirming the execution of business plans and financial conditions, JSCC monitors operational risk (including IT system risk and other operational risk) and investment risk on a monthly basis within the comprehensive risk management framework outlined in Principle 3 (Framework for the Comprehensive Management of Risks).

#### **Key Consideration 2:**

**An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery of orderly wind-down, as appropriate, of its critical operations and services if such action is taken.**

JSCC holds sufficient liquid net assets funded by equity to continue operations and service provision even if it incurs general business losses.

JSCC considers that the above liquid net assets funded by equity must be sufficient to cover a minimum of six months of operating expenses, to cover JSCC's operational risk (including IT system risk and other operational risk) and investment risk.

JSCC monitors the sufficiency of the above liquid net assets on a monthly basis within the comprehensive risk management framework outlined in Principle 3 (Framework for the Comprehensive Management of Risks).

**Key Consideration 3:**

**An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.**

As mentioned above, JSCC holds sufficient liquid net assets funded by equity to cover operating expenses for 6 months. These liquid assets are managed separately from the resources used when a Clearing Participant defaults. Therefore, even in the event of JSCC's recovery or orderly wind-down, Clearing Participants would have sufficient time to address the transition in their operations.

Furthermore, JSCC has a capital recovery plan which lists the measures to address the situation during a 6-month period in the event of losing revenues due to an unexpected event, including system failure or inappropriate operations.

With regard to recovery and resolution, JSCC will revise its recovery plan, if necessary, based on continuing discussions with regulators, Clearing Participants, and other related parties regarding the international standards for FMI recovery and orderly resolution published by CPMI-IOSCO and the Financial Stability Board ("FSB") in October 2014.

**Key Consideration 4:**

**Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.**

JSCC's liquid net assets funded by equity are held in the form of Japanese Yen cash (deposited in settlement accounts, or on term deposit), JGBs, and government guaranteed bonds. These are of high quality and highly liquid, even in stressed market conditions.

Japanese yen cash is held at banks which meet JSCC's specific criteria for investment risk. (See Principle 16 (Custody and Investment Risks) for further details.)

**Key Consideration 5:**

**An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.**

JSCC's capital recovery plan details the actions which JSCC may take if its capital decreases significantly, or if it falls below the level required to cover 6 months of operating expenses. These actions may include:

- Comprehensive review of all expenses, including salaries and compensation;
- Revision of Clearing Fee;
- Revision of JSCC's Business Plan;
- Discussions with stakeholders, such as parent company and other shareholders, regarding an injection of additional capital; and
- Reassessment and restructuring of JSCC's businesses and operations.

JSCC reviews the Capital Recovery Plan at least once a year, and conducts revisions as necessary. When conducting revisions, the details of the revisions are reported to and approved by the Board of Directors as necessary.

## **Principle 16: Custody and Investment Risks**

***An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.***

### **Key Consideration 1:**

**An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.**

#### Custodian for JSCC's Assets

The scope of eligible investment products for JSCC's own assets is limited to deposit in settlement account, term deposit, JGBs, and government guaranteed bonds, in accordance with JSCC's "Policies for Fund Management of Own Assets."

The custodians for deposit in settlement account and term deposit are limited to Fund Settlement Banks designated based on criteria specified by JSCC. See Principle 4 (Credit Risk) for further details.

JGBs and government guaranteed bonds are held in the customer accounts of the financial institutions from which JSCC purchased them. Even in the event of the default of such financial institutions, the customer account assets are protected by the "Act on Book-Entry Transfer of Company Bonds, Shares, etc."

#### Custody for Clearing Participant and Customer Assets

Custody of the collateral of Clearing Participants and their customers is limited to JSCC's direct holding in the account with the CSD or the central bank, or custodians that satisfy the criteria specified in JSCC's "Policies for Designation of Custodians of Posted Collateral."

#### Management of Custodian Risk

Commercial banks holding JSCC's own assets are those which satisfy the "Policies for Designation of Japanese Yen Fund Settlement Banks" or "Policies for Designation of Foreign Currency Fund Settlement Banks." Banks holding assets of Clearing Participants and their customers posted as collateral are the CSD, the central bank, or commercial banks that satisfy the "Policies for Designation of Custodians of Posted Collateral."

JSCC regularly monitors each custodian's compliance with the relevant guidelines.

The relevant guidelines require custodians to be subject to regulatory supervision, have stable business processing capability, stable profitability, and a certain level of financial strength and credit.

### **Key Consideration 2:**

**An FMI should have prompt access to its assets and the assets provided by participants, when required.**

#### Access to JSCC's Own Assets

JSCC holds its own assets in accounts under its own name, thus allowing for prompt access

to such assets when necessary.

#### Access to Clearing Participant and Customer Deposited Assets

Collateral deposited by Clearing Participants and customers is held in accounts for the purpose of collateral custody under JSCC's name, thus allowing for JSCC's prompt access to such assets when necessary.

US Treasuries are held in JSCC's account with a custodian located in the U.S., and can be accessed promptly.

#### Legal Basis

Japanese law provides a sound legal basis for the rights of an account holder to access its assets.

Additionally, the FIEA states that, in the event of a Clearing Participant default, with a prescription in a CCP's Business Rules, a defaulting Clearing Participant's collateral can be applied to the fulfillment of obligations with the CCP in preference to general bankruptcy proceedings, ensuring JSCC's stable access to collateral. (See Principle 1 (Legal Basis) for the handling of cross-border collateral.)

#### **Key Consideration 3:**

**An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each.**

With a view to eliminating credit risk of custodians where collateral is deposited for Clearing Participants and their customers to the extent possible, custodians are limited to the CSD, the central bank, and commercial banks based on the "Policies for Designation of Custodians of Posted Collateral." In the "Policies for Designation of Custodians of Posted Collateral," JSCC requires stable profitability and a certain level of financial strength and credit in custodians.

JSCC continuously monitors that custodians satisfy the "Policies for Designation of Custodians of Posted Collateral" by regularly receiving reports on the financial conditions of custodians and confirming the smooth execution of daily settlement operations.

Additionally, JSCC has designated multiple banks as custodians of cash collateral. JSCC monitors the concentration status on a monthly basis.

#### **Key Consideration 4:**

**An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.**

JSCC's basic investment policy is stipulated in the Risk Management Policy, which is subject to approval by the Board of Directors and Risk Oversight Committee. The scope of eligible products is restricted to ensure funds are invested only in the highly stable and liquid products. Specifics are specified in the "Policies for Fund Management of Own Assets" and "Policies for Management of Posted Collateral."

JSCC eliminates, to the extent possible, credit risk related to asset management by limiting the scope of eligible products to term deposits, JGBs, government guaranteed bonds, and secured call loans on JGBs.

The investment policy is publicly available on JSCC's website.

## **Principle 17: Operational Risk**

***An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.***

### **Key Consideration 1:**

**An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.**

JSCC's Risk Management Policy establishes a framework for internal controls to identify, monitor, and manage all operational risks across JSCC's Clearing Businesses. See Principle 3 (Framework for the Comprehensive Management of Risks) for further details.

### **Identification and Management of Operational Risk**

JSCC's Risk Management Policy identifies the following risks and prescribes processes to manage them:

- General Operation Risk: operational mistakes, insufficient human resources, outsourcing risks
- System Risk: computer system failure, system malfunctions, improper usage of computers

In addition to these risks, the Risk Management Policy provides for basic policies for business continuity and related management methods in order to restore and continue operations as soon as possible in the event of a terrorist attack or large scale natural disaster.

JSCC manages operational risk within the comprehensive risk management framework. Specifically, reports are given to the Risk Oversight Committee on a monthly basis, regarding compliance with the Risk Management Policy related to General Operational Risk, System Risk, and the business continuity framework. Additionally, JSCC reports the same information to the Board of Directors on a quarterly basis. At least once a year, JSCC reviews the Risk Management Policy, including a review of the management policy for operational risk. See Principle 3 (Framework for the Comprehensive Management of Risks).

### **General Operation Risk Management**

JSCC's Risk Management Policy stipulates basic policies for managing General Operation Risk. These include:

- Securing sufficient capacity for operations;
- Establishing an internal control framework to prevent operational errors;
- Establishing information security measures; and
- Managing outsourcing arrangements.

Based on the basic policies, JSCC stipulates the details of these within the following rules:

- Rules on Management of Operational Process;
- Information Security Policies;
- Information Security Criteria; and
- Outsourcing Management Rules.

As part of its internal control framework to prevent operational errors, when establishing operational flows, JSCC uses Enterprise Risk Management (ERM) methods to identify potential risks and devises measures to prevent and control them in advance. The risks arising from each business are identified via the ERM framework on a regular and company-wide basis, and appropriate measures are planned to prevent their occurrence, based on frequency and severity. Through this process, when changing rules or introducing new products, JSCC enables stable and continuous operations which do not rely on specific staff, by accumulating the knowledge among operational staff and outsourced personnel.

Additionally, each of JSCC's Clearing Businesses verify their manuals/checklists at least once a year, and conduct revisions as necessary when introducing new products and changing rules.

In the event operational errors occur for one of the Clearing Businesses, JSCC will investigate the cause and devise measures to prevent reoccurrence which are reported to the Risk Oversight Committee, depending on significance and impact. Through this process, JSCC continuously controls General Operation Risks.

### System Risk Management

JSCC's Risk Management Policy stipulates the basic policies for managing System Risk. These include:

- Secure sufficient system processing capacity;
- Conduct system development based on an appropriate plan with sufficient testing;
- Prepare a contingency plan for the occurrence of system failures and cyber security incidents;
- Establish information security measures; and
- Manage outsourcing arrangements.

Based on the basic policies, JSCC stipulates the details of these in the:

- System Risk Management Policy;
- System Risk Management Rules;
- Information Security Policies;
- Information Security Criteria;
- Outsourcing Management Rules; and
- Manual for Handling Incidents Suspected of Cyberterrorism

JSCC outsources primary system processes for its Clearing Businesses. JSCC evaluates the associated risks according to the "Outsourcing Management Rules" and "Outsourcing Selection Criteria."

Should an unexpected event occur, such as a system failure, JSCC will investigate the cause and devise measures to prevent reoccurrence which are to be reported to the Risk Management Committee, depending on significance and impact. In addition to this, JSCC reports system capacity and processing capabilities, system development status, and outsourcing management status to the Risk Oversight Committee. Through this process, JSCC continuously controls System Risk.

### Potential Single Points of Failure

Within the system development process for its Clearing Businesses, JSCC identifies single points of failure in advance, and incorporates redundant configurations. Additionally, JSCC verifies whether failovers occur as expected in system testing. As such, JSCC does not view there to be any potential single points of failure in its IT systems operating Clearing Businesses.

## Business Continuity Plan

JSCC's Risk Management Policy stipulates the basic policies and management methods related to the business continuity framework. These include:

- Preparing redundancy within IT systems;
- Securing a back-up data center and back-up office;
- Preparing a Business Continuity Plan; and
- Aiming to restore business operations within 2 hours.

Based on the basic policies, JSCC stipulates the details of these in the "BCP Basic Plan." Furthermore the two hour target for restoring business operations is in line with the business continuity target set by the Securities Market BCP Forum, which is a conference for the Japanese securities industry.

In the event a risk occurs which threatens JSCC's business continuity, JSCC will take measures based on the "BCP Basic Plan" to prevent and control factors which harm business continuity.

JSCC has equipped its systems with redundancy and established a back-up data center and back-up office, the effectiveness of which it regularly verifies. The specific verification framework includes synchronization between primary and back-up centers, regular data center switching drills, maintenance of back-up office equipment and facilities, executing operations from the back-up office, updating manuals based on the "BCP Basic Plan" and staff BCP education.

JSCC reports the progress of the above to the Risk Oversight Committee. Through this process, JSCC confirms the effectiveness of its BCP.

## Framework to Secure Necessary Personnel and Personnel Compliance

JSCC continuously strives to secure human resources with the ability to execute its Clearing Businesses and perform risk management.

Specifically, to reduce the risk of losing key personnel, JSCC employs individuals with the necessary operational and risk management knowledge for each Clearing Business, and cultivates employee knowledge and capabilities via education and training.

JSCC's Risk Management Policy stipulates the basic policies for managing compliance risk. These include establishing a compliance framework based on a compliance program including a code of conduct, and keeping staff informed of the program's details. Based on these basic policies, JSCC stipulates the "JSCC Employee Code of Conduct," "Compliance Program," and "Rules of Internal Information Management," for which it continuously conducts employee education and training. JSCC reports risk management conditions related to compliance to the Risk Oversight Committee as necessary. Through this process, JSCC prevents misconduct.

### **Key Consideration 2:**

**An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk-management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.**

JSCC's Board of Directors has final responsibility in relation to JSCC's operational risk management. Within the comprehensive risk management framework, JSCC manages operational risk. Revisions of the Risk Management Policy, which provides for basic risk management policies, are made via resolution by the Board of Directors. JSCC validates the Risk Management Policy at least once a year. The process and the results of this validation are

reported to the Board of Directors. See Principle 2 (Governance) for more details on the roles of JSCC senior management and the Board of Directors.

JSCC's Board of Directors receives reports regarding compliance with the Risk Management Policy for operational risk on a quarterly basis. JSCC provides the Operational Procedures to realize smooth clearing operations with Clearing Participants. Additionally, JSCC provides System Connection Specifications to realize stable system operations with Clearing Participants. These Operational Procedures and System Specifications clarify operational details and deadlines to avoid misunderstanding with Clearing Participants, and facilitate operational risk management. When changing operational procedures and implementing new products, these documents are revised as necessary and system testing is performed with Clearing Participants in advance, thus allowing for verification and evaluation.

Furthermore, for replacement of critical systems, or similar large development projects, JSCC will seek evaluation by external experts, when necessary.

**Key Consideration 3:**

**An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.**

JSCC's Risk Management Policies clearly define their objective to "establish robust and comprehensive risk management frameworks, ensure steady provision of the Clearing Businesses, and prevent a loss of JSCC's capital."

To achieve this objective, JSCC regularly confirms that all critical systems have sufficient processing capacity for current levels of utilization and forecasted future requirements. Capacity targets and actual performance data are presented in the monthly Risk Oversight Committee, and the sufficiency of system capacity and processing capabilities is confirmed.

**Key Consideration 4:**

**An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.**

JSCC has put in place the following measures to ensure its systems have sufficient processing capabilities:

- All critical systems are required to have sufficient processing capacity to handle a steep increase in processing volume; and
- A warning threshold is implemented into monitoring procedures, which triggers if utilization exceeds 50% of capacity. This is to ensure that measures can be implemented to increase the system capacity well in advance of the required time frame.

**Key Consideration 5:**

**An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.**

### Physical Security

The primary data center which houses JSCC's clearing system satisfies all the requirements of "The Center for Financial Industry Information Systems: Security Guidelines on Computer Systems for Banking and Related Financial Institutions," which is the standard for Japanese financial market safety, and has received ISMS certification.

For continuous certification, ISMS conducts ongoing review and examination for certification

renewal, once a year and once each three years, respectively. Risk mitigation measures are taken if necessary as a result of such review.

In addition, JSCC has established the “Information Security Policies” and “Information Security Criteria” as internal rules, under which measures against physical vulnerability and threats have been implemented.

#### Information Security

JSCC’s “Information Security Policies” provide basic policies and a management framework for appropriately handling information assets. In the “Information Security Criteria,” which is based on the “Information Security Policies,” JSCC stipulates matters to be handled from the viewpoint of information security in relation to its information and information systems. These include management of connections to external networks, anti-virus measures, and the establishment of system access procedures.

When establishing the “Information Security Policies” and “Information Security Criteria,” JSCC consulted with experts on industry standards.

The Division responsible for JSCC’s information security confirms compliance conditions with the “Information Security Policies” and “Information Security Criteria” on an annual basis. If it is determined that the current criteria are not appropriate, as a result of this check, due to a change in industry standards, advancement of technology, or other reasons, the criteria shall be revised and updated.

Additionally, JSCC has confirmed that the outsourcee for the clearing system has stipulated technology security objectives for JSCC’s clearing system, and satisfies the certification criteria of ISO27001/ISMS.

#### **Key Consideration 6:**

**An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.**

#### Objectives of BCP Basic Plan

The purpose of JSCC’s “BCP Basic Plan” is to restore and resume JSCC’s business operations, following a terrorist attack or natural disaster.

#### Design of BCP Basic Plan

JSCC’s “BCP Basic Plan” stipulates that even if an event which causes entire or partial operation interruption occurs (risk event), measures shall be taken to enable prompt recovery and resumption of material business operations, and the detailed measures thereof. These include employment of secure system redundancy, establishment of back-up data centers, and back-up offices.

JSCC’s “BCP Basic Plan” is designed to enable full recovery of its business operations within 2 hours of the occurrence of a terrorist attack, natural disaster, or other risk events. It also sets forth communication flow with internal and external critical stakeholders and regulators.

## Secondary Site

JSCC maintains a secondary site in addition to its primary site. Clearing systems are located at both sites and are equipped with the same level of processing capacity.

The secondary site is maintained as an active site, which allows for swift switchover from the primary site. Full-time system operations personnel are assigned to the secondary site.

JSCC's primary and secondary sites are geographically separated with different power and communications infrastructure. JSCC sees an extremely low probability of both sites simultaneously being affected by a disaster. A full detailed analysis of the risk profile was conducted at the time the secondary site was selected.

Data synchronization between JSCC's primary and secondary centers runs on a semi-real-time basis (1-minute intervals). Therefore JSCC considers that the possibility of data loss is extremely low.

In the unlikely event of data loss in the clearing system, JSCC would be able to recover lost data by employing processes such as data acquisition from, and reconciliation with, other market operators and financial institutions.

## Review and Testing

In order to verify the adequacy and effectiveness of JSCC's "BCP Basic Plan," JSCC conducts BCP fire-drills at least once a year. These fire-drills include data synchronization to the back-up data center, regular data center switchover tests, back-up office maintenance, running operations from the back-up center, updating manuals based on the "BCP Basic Plan," and staff BCP education.

JSCC participates, alongside other FMIs, such as the BOJ and JASDEC, in an industry-wide BCP exercise organized by the Japan Securities Dealers Association and Japanese Bankers Association, or BCP exercise organized by another FMI, at least once per year.

These exercises assume a wide-area disaster and involve a broad scope of institutions.

Based on the results and opinions/recommendations arising from these exercises, JSCC will amend the "BCP Basic Plan" as necessary.

JSCC makes reports regarding the matters above to the Risk Oversight Committee. Through this process, JSCC continually confirms the effectiveness of its business continuity framework.

### **Key Consideration 7:**

**An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.**

## Risks to JSCC's Operations from outside entities

Within JSCC's "BCP Basic Plan" and "Guidelines for Handling upon System Failure," JSCC provides contingency plans for cases of a system failure on the side of other FMIs, market operators, or Clearing Participants with which JSCC has connection. The effectiveness of these plans is confirmed through the BCP exercise process detailed above.

JSCC identifies risks related to system development and operations on the side of outsourcees and regularly confirms the status of response measures, in addition to confirming

the satisfaction of reliability and contingency criteria by regularly holding switchover drills with such outsourcees.

Risks that JSCC may pose to other FMI

Should JSCC experience an operational risk event, JSCC has formulated arrangements with other FMIs to deal with such situations in the “BCP Basic Plan.” This ensures that an operational risk event at JSCC does not have a systemic impact on other FMI.

## **Principle 18: Access and Participation Requirements**

*An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.*

### **Key Consideration 1:**

**An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.**

JSCC has established criteria for the acquisition and maintenance of Clearing Qualification for each of JSCC's Clearing Businesses<sup>48</sup>. Each Clearing Business's criteria are rationally aligned with the risks and nature of that business, do not impose excessive restrictions on entities eligible for participation, and ensures open access to those applying for Clearing Qualification. JSCC has established no limitations on the attributes of Clearing Participant customers and does not charge fees that operate to overly limit participation.

Based on the assumption that an applicant is an entity registered with the JFSA, participation criteria broadly cover the following requirements:

- Management Structure;
- Financial Requirements; and
- Business Structure.

The participation criteria are stipulated in the Business Rules of each Clearing Business and have been approved by the JFSA. This approval is based on the FIEA's prohibition of discriminatory treatment, and affirms the open access which the criteria provide<sup>49</sup>. The participation criteria are publicly available.

### **Key Consideration 2:**

**An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavor to set requirements that have the least restrictive impact on access that circumstances permit.**

JSCC has established participation criteria that are rationally aligned with the relevant risks, the nature of each Clearing Business, and the attributes of Clearing Participants. JSCC considers the criteria to feature minimum and sufficient requirements for maintaining the stability and efficiency of its Clearing Businesses.

Participation in the Listed Products Clearing Business or OTC JGB Clearing Business is divided into Principal and Agency. The participation criteria for Agency Clearing Participants, which are able to provide clearing access to other entities, are stricter than those for Principal Clearing Participants. When Clearing Participants for the IRS Clearing Business provide clearing services to non-affiliate customers, JSCC requires the maintenance of a structure for properly managing customer risk and preventing improper infringement of customer interests. Entities eligible to be JSCC Clearing Participants include Financial Instrument Business Operators, banks, or insurance companies. JSCC has established eligibility criteria based on

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<sup>48</sup> Listed Products Clearing Business Rules Chapter 2  
OTC JGB Clearing Business Rules Chapter 2  
CDS Clearing Business Rules Chapter 2  
IRS Clearing Business Rules Chapter 2

<sup>49</sup> FIEA Article 156-9

indicators of financial soundness appropriate for these entities.

The participation criteria are publicly available, and can be accessed by all current and potential Clearing Participants. The participation criteria are amended as needed according to changes in the regulatory environment and general market conditions.

**Key Consideration 3:**

**An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.**

Monitoring Participant Compliance

JSCC continuously monitors Clearing Participants for ongoing compliance with the participation criteria for each of JSCC's Clearing Businesses.

(1) Monitoring Compliance with Financial Criteria

JSCC receives reports on Clearing Participant finances monthly, quarterly, semi-annually, and annually to monitor the soundness of Clearing Participant finances. The reports Clearing Participants submit to JSCC are the same as those submitted to regulators. Additionally, JSCC monitors daily news for information on Clearing Participant finances, as well as credit ratings, market information (stock prices, CDS/bond spreads).

(2) Monitoring Compliance with Management/Business Structure Criteria

JSCC requires Clearing Participants to submit a report when there is a change in executive officer or major shareholder in order to monitor the soundness of their management. JSCC also monitors daily news for information on Clearing Participant management, and business structure, such as office transfers or reductions in operations. JSCC also conducts monitoring of daily clearing operations, including payments, securities deliveries, and whether collateral is deposited on time.

Measures against Clearing Participants

When JSCC determines that a Clearing Participant does not satisfy participation criteria or has violated JSCC rules, JSCC will take disciplinary measures against the Clearing Participant according to the methods prescribed in the Business Rules of each Clearing Business<sup>50</sup>.

Before determining the measures, JSCC will consult the Disciplinary Measures Assessment Committee regarding the appropriateness of the measures. The Disciplinary Measures Assessment Committee is composed of multiple experts, including lawyers and academics, and is independent from JSCC and Clearing Participants.

These measures include issuing instructions on business structure or position improvement, the suspension of all or part of its clearing services and revocation of Clearing Qualification for the relevant Clearing Participant. Prior to these measures, JSCC may request the submission of

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<sup>50</sup> Listed Products Clearing Business Rules Chapter 2, Section 5  
CDS Clearing Business Rules Chapter 2, Section 5  
OTC JGB Clearing Business Rules Chapter 2, Section 5  
IRS Clearing Business Rules Chapter 2, Section 6

materials or conduct an on-site examination to gain a better understanding of the Clearing Participant's finances, management, and business structure, if JSCC deems such a request necessary to ensure the stable operations of the Clearing Business. In order to promote improvement at the Clearing Participant, JSCC may recommend appropriate measures based on its rules.

In cases where a Clearing Participant withdraws from the Clearing Business due to revocation of qualifications, such Clearing Participant is required to dissolve its positions and fulfill its obligations before its qualifications are revoked. As such, JSCC ensures the withdrawal of a Clearing Participant is conducted in an orderly manner.

If JSCC suspends clearing for a Clearing Participant or revokes a Clearing Participant's Clearing Qualification, it will notify all relevant stakeholders, including other Clearing Participants and market operators, and make a public announcement.

## **Principle 19: Tiered Participation Requirements**

***An FMI should be reviewed in the context of Principle 14 on segregation and portability, Principle 18 on access and participation requirements, and other principles, as appropriate.***

### **Key Consideration 1:**

**An FMI should ensure that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements.**

Clearing Participants are direct participants of JSCC with access to JSCC's Clearing Businesses.

Entities that are not Clearing Participants may access JSCC's clearing services through a Clearing Participant, as a customer of such Clearing Participant, in accordance with a contract with such Clearing Participant ("Indirect Participant"). The scope of Indirect Participants may vary by Clearing Business, and includes brokers, banks, asset managers, pension funds, hedge funds, non-financial corporate entities, and individuals.

For each of JSCC's Clearing Businesses, the following Indirect Participants are accepted:

- Listed Products Clearing Business: Customers of Clearing Participants, Trading Participants of Exchanges (non-JSCC Clearing Participants) and customers of Trading Participants<sup>51</sup>
- CDS Clearing Business: Clearing Participant affiliates
- IRS Clearing Business: Clearing Participant affiliates and non-affiliated customers
- OTC JGB Clearing Business: No indirect participation

### **(1) Rules/Agreements for Gathering Indirect Participant Information**

JSCC's Business Rules, subordinate rules, and Clearing Brokerage Agreements authorize it to gather information on the nature of Indirect Participants via Clearing Participants. The rules for JSCC's Listed Product Clearing Business state that, when JSCC requests, a Clearing Participant must provide information relating to the position of Indirect Participants, allowing JSCC to maintain an understanding of each Indirect Participant's positions<sup>52</sup>.

The Business Rules and subordinate rules for JSCC's CDS and IRS Clearing Businesses provide that separate accounts should be maintained for each Indirect Participant at JSCC. This allows JSCC to maintain an understanding of each Indirect Participant's positions<sup>53</sup>.

### **(2) Risks to JSCC arising from Tiered Participation**

Please see Key Consideration 3 of this Principle for the risks to JSCC arising from tiered participation arrangements and the management of such.

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<sup>51</sup> Customers of the Listed Products Clearing Business include both affiliates of Clearing Participants and non-affiliates.

<sup>52</sup> Listed Products Clearing Business Article 40  
Contract for Commissioning Clearance Article 16  
Rules on Margins, etc. for Futures and Options Contracts Article 26

<sup>53</sup> CDS Clearing Business Rules Article 59  
IRS Clearing Business Rules Article 59

**Key Consideration 2:**

**An FMI should identify material dependencies between direct and Indirect Participants that might affect the FMI.**

By monitoring the position risk of Clearing Participants, JSCC is able to identify dependencies between Clearing Participants and Indirect Participants. Specifically, in order to avoid a customer's default having a significant impact on such customer's Clearing Participant, JSCC will, as necessary, request information from a Clearing Participant regarding the positions of individual Indirect Participants and their risk management, and confirm whether there are any issues in comparison to the financial strength of such Clearing Participant.

**Key Consideration 3:**

**An FMI should identify Indirect Participants responsible for a significant proportion of transactions processed by the FMI and Indirect Participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions.**

Clearing Participants are responsible for their related Indirect Participants' financial obligations to JSCC, even when such Indirect Participants do not fulfill such obligations. As such, JSCC monitors whether Clearing Participants have excessive exposure to Indirect Participants in comparison to their financial strength at least once a day for all products, and more frequently for certain products.

Additionally, under the Business Rules and subordinate rules, JSCC may acquire additional information from Clearing Participants on each Indirect Participant as necessary, allowing it to maintain an understanding of detailed position information and risk management of Indirect Participants, and identify Indirect Participants which may have a significant impact on Clearing Participant risk management. Through these measures JSCC conducts its risk management.

Based on this monitoring, JSCC may take additional risk reduction measures, such as requiring additional collateral or a reduction of positions.

**Key Consideration 4:**

**An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate.**

When determining to take the risk reduction measures mentioned in Key Consideration 3 of this Principle, JSCC consults with the Disciplinary Measures Assessment Committee to ensure the objective propriety of such measures. The Disciplinary Measures Assessment Committee is composed of 5 members, including lawyers, academics, and other experts, and maintains independence from JSCC and Clearing Participants.

## **Principle 20: FMI Links**

*An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.*

### **Key Consideration 1:**

**Before entering into a link arrangement and on an ongoing basis once the link is established, an FMI should identify, monitor, and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that each FMI is able to observe the other principles in this report.**

JSCC conducts an assessment of potential risks prior to establishing a proposed link arrangement, including those related to trading and clearing. In this assessment, JSCC examines the potential risks relating to legal, credit, liquidity, regulatory, and operational areas that may have an impact on JSCC.

Currently, JSCC only has FMI links with the following entities:

- JASDEC, as custodian of securities settlement and collateral in municipal and corporate bonds, listed stocks, ETF, REIT, CB and non-exchange traded investment trusts for the Listed Product Clearing Business.
- BOJ, as a Fund Settlement Bank for money settlement and a custodian of JGB collateral.
- DTCC Data Repository (U.S.) LLC, as a trade repository of trade information under CFTC Regulations for the IRS Clearing Business.

These links are established by JSCC's participation in the systems of each FMI. Each FMI is subject to the PFMI, and therefore any potential sources of risk (such as legal, credit, liquidity, custody, and operational risk) are expected to be properly managed.

### **Key Consideration 2:**

**A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link.**

All links currently implemented by JSCC are with Japanese FMIs, except for DTCC Data Repository (U.S.) LLC, based on Japanese law.

DTCC Data Repository (U.S.) LLC is registered as a Swap Data Repository ("SDR") under CFTC Regulations, and thus is confirmed to have a well-founded legal basis providing appropriate protection to FMIs.

### **Key Consideration 3:**

**Linked CSDs should measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high-quality collateral and be subject to limits.**

This consideration is not applicable as JSCC is not a CSD.

**Key Consideration 4:**

**Provisional transfers of securities between linked CSDs should be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final.**

This consideration is not applicable as JSCC is not a CSD.

**Key Consideration 5:**

**An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD's participants.**

This consideration is not applicable as JSCC is not a CSD.

**Key Consideration 6:**

**An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor, and manage the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary.**

This consideration is not applicable as JSCC is not a CSD.

**Key Consideration 7:**

**Before entering into a link with another CCP, a CCP should identify and manage the potential spill-over effects from the default of the linked CCP. If a link has three or more CCPs, each CCP should identify, assess, and manage the risk of the collective link arrangement.**

This consideration is not applicable as JSCC has not established a link with another CCP.

**Key Consideration 8:**

**Each CCP in a CCP link arrangement should be able to cover, at least on a daily basis, its current and potential future exposures to the linked CCP and its participants, if any, fully with a high degree of confidence without reducing the CCP's ability to fulfil its obligations to its own participants at any time.**

This consideration is not applicable as JSCC has not established a link with another CCP.

**Key Consideration 9:**

**A TR should carefully assess the additional operational risks related to its links to ensure the scalability and reliability of IT and related resources.**

This consideration is not applicable as JSCC is not a TR.

## Efficiency

### **Principle 21: Efficiency and Effectiveness**

***An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.***

#### **Key Consideration 1:**

**An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products clearing, settled, order recorded; and use of technology and procedures.**

JSCC has formal processes involving Clearing Participants to ensure its development of products and services is in-line with market needs. JSCC has established advisory committees for each Clearing Business for this purpose, specifically the User Committee (Listed Products), CDS Risk Management Committee, IRS Management Committee, and OTC JGB Management Committee. These committees are composed of major users, and are consulted with regarding major clearing/settlement frameworks, operational processing frameworks, and product development, before such matters are decided upon by the Board of Directors.

For the CDS, IRS, and OTC JGB Clearing Businesses, in order to accurately reflect Clearing Participant opinions, JSCC has established subordinate committees for those mentioned above. These include committees for risk management, operational, and legal areas.

Additionally, JSCC receives feedback related to rules/procedure revisions of clearing/settlement frameworks, operational processing frameworks, and product development via public comments and informal discussions with Clearing Participants and customers. These arrangements aim to ensure a broad range of opinions are considered in the process of establishing a properly functioning market between a diverse range of Clearing Participants and customers.

#### **Key Consideration 2:**

**An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum services levels, risk-management expectations, and business priorities.**

JSCC provides in its Corporate Philosophy:

*“JSCC, with a solid risk-management framework, aims to enhance the competitiveness of Japanese financial and capital markets by improving the efficiency, serviceability and safety of financial market post-trade processing infrastructure.”*

JSCC has defined 2 basic policies to achieve its Corporate Philosophy, namely “reinforcement of Clearing Functions, Risk Management and IT Systems towards Service Quality Improvement,” “reinforcement of the Company’s Role as Core Infrastructure through Expansion of the Scope of Services.”<sup>54</sup>

In order to achieve its objectives, JSCC establishes a medium-term management plan to realize specific policies based on the surrounding environment, and reports the progress on a

<sup>54</sup> JSCC <http://www.jsc.co.jp/en/company/philosophy.html>

quarterly-basis to senior management and on at least an annual-basis to the Board of Directors, thereby ensuring it is measurable and attainable.

JSCC has established a comprehensive risk management framework in order to achieve the “with solid risk-management framework” in its Corporate Philosophy, under which JSCC identifies, monitors, and manages the risks it faces.

Within the comprehensive risk management, for system risk management, JSCC has set targets for system processing capacity and time required for system processing. JSCC also manages the level of financial resources it should hold.

**Key Consideration 3:**

**An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.**

As above, JSCC has established a framework for confirming the progress of the medium-term management plan and a framework for comprehensive risk management. Within the regular review of these frameworks, JSCC conducts reviews of measures which have been implemented from the perspective of systems, operations, and costs.

## **Principle 22: Communications Procedures and Standards**

***An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.***

### **Key Consideration 1:**

**An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.**

JSCC uses widely accepted communication procedures and standards for communications with Clearing Participants, Fund Settlement Banks, and linked FMIs. JSCC uses the following procedures and standards for external communications.

### Procedures/Standards for Communication with Clearing Participants

#### (1) Listed Products Clearing Business

JSCC provides dedicated terminals to Clearing Participants for everyday clearing operations. Additionally, Clearing Participants are able to use an API provided by JSCC to directly access JSCC's clearing system. JSCC also provides connection specifications for the JSCC clearing system to Clearing Participants that request them.

#### (2) CDS/IRS Clearing Businesses

JSCC provides trade data and other services via various portal sites, FTP (File Transfer Protocol), MQ messaging, and FpML (Financial Products Markup Language) format.

For the CDS Clearing Business, JSCC processes applications for clearing from Clearing Participants via the Trade Information Warehouse provided by The Warehouse Trust Company LLC.

For the IRS Clearing Business, JSCC processes applications for clearing from Clearing Participants through MarkitWire, provided by MarkitSERV Limited, electronic trading platforms (i.e., VCON (Voice Confirmation) function or ETP (Electronic Trading Platform) function, provided by Bloomberg Tradebook Japan Limited, QUICK-Confirmation provided by QUICK Corp. and Clear Markets Japan ETP (Electronic Trading Platform) provided by Clearing Markets Japan, Inc.) and electronic trade affirmation platforms designated by JSCC.

OTC JGB Clearing Business Communications between JSCC and Clearing Participants are conducted over TCP/IP (Transmission Control Protocol/Internet Protocol) using the Pre-Settlement Matching System provided by JASDEC, with processing based on ISO20022 messaging.

### Procedures/Standards for Communication with Fund Settlement Banks

JSCC uses BOJ-NET for its JPY-settlement at the central bank.

Additionally, for the transfer of Japanese Yen collateral for the Listed Products Clearing Business through commercial banks, JSCC processes the transfer of funds through the firm banking system based on Japanese Bankers Association procedures.

JSCC processes payment/receipt of collateral in non-JPY currencies, for the IRS Clearing Business, through commercial banks using the SWIFT financial messaging service.

### Procedures/Standards for Communication with CSD

Connection with BOJ (CSD for JGBs)

For book-entry transfer/DVP settlement of JGBs at BOJ, JSCC conducts operational procedures based on system connection specifications using ISO20022XML message, provided by BOJ.

Connection with JASDEC (CSD for stocks)

For book-entry transfer/DVP settlement of stocks at JASDEC, JSCC conducts operational procedures via access to JASDEC's network system, using ISO20022 XML messaging as the connection specifications.

## Transparency

### **Principle 23: Disclosure of Rules, Key Procedures, and Market Data**

*An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be public disclosed.*

#### **Key Consideration 1:**

**An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.**

#### Business Rules

The Business Rules and subordinate rules for each of JSCC's Clearing Businesses are fully disclosed on JSCC's website, in Japanese and English. The Business Rules comprehensively provide details under normal conditions of the responsibilities of Clearing Participants, Clearing Participant default procedures, responses to system failures, and emergency measures during natural disasters. Additionally, JSCC has established contingency plans which specify responses, procedures, and arrangements for each product eligible for clearing during times of emergency. All of these are disclosed on JSCC's website.

In cases where JSCC must add a revision to the Business Rules or subordinate rules, JSCC consults the advisory committee of the relevant Clearing Business regarding the details of the revision in advance, excluding insignificant revisions. See Principle 2 (Governance) for details on the advisory committees.

In cases where a revision to the Business Rules or subordinate rules would impact investors, JSCC compiles an outline of the proposed revision and submits it for public comment. This process allows Clearing Participants and investors to understand the aim of the revision and its impact.

#### General Information

JSCC's website is publicly accessible and provides the following information related to clearing and settlement:

- JSCC's background, company overview, and corporate philosophy;
- Clearing Participant criteria and list of Clearing Participants;
- Clearing business framework;
- Settlement guarantee framework;
- Details on eligible collateral;
- Margin framework and loss compensation framework;
- Mark-to-market methods;
- Statistics; and
- Clearing fees.

**Key Consideration 2:**

**An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participant's rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.**

Descriptions of JSCC's Clearing Business framework, including the claims and obligations between JSCC and Clearing Participants and operational procedures, are stipulated in the Business Rules and subordinate rules for each Clearing Business. JSCC's Business Rules and subordinate rules are publicly available via its website.

The details which compose the core of JSCC's Clearing Business framework are stipulated in the Business Rules and subordinate rules. When revising these rules, as in Key Consideration 1 of this Principle, JSCC provides the details of the revisions to interested parties via consultation with Clearing Business advisory committees and a public comment process.

Additionally, the Business Rules and subordinate rules stipulate the scope of matters that JSCC is able to determine at its discretion in the course of its Clearing Business operations.

JSCC provides a wide range of information to Clearing Participants, to enable Clearing Participants to evaluate the risks and costs pertaining to participation in JSCC, including the following:

- Eligible products for clearing and details of the requirements for clearing;
- Eligible collateral and applicable haircuts;
- Management of Clearing Participant default and measures to be taken for it, including available financial resources; and
- Loss Compensation Scheme (Risk Waterfall) for each Clearing Business.

This information is included in JSCC's Business Rules and subordinate rules, which are public documents. JSCC also provides the "Operational Procedures," which stipulate details for the operations of each Clearing Business, to Clearing Participants.

**Key Consideration 3:**

**An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.**

JSCC holds explanatory sessions for new Clearing Participants, to facilitate their understanding of the clearing framework and procedures before granting Clearing Qualifications. JSCC makes efforts to familiarize Clearing Participants with JSCC's rules and procedures in explanatory sessions on Clearing Businesses when required, such as when revising rules or introducing new products.

For the CDS, IRS, and OTC JGB Clearing Businesses, JSCC holds regular default management fire-drills, to familiarize Clearing Participants with the Clearing Participant default management procedures, which would apply to non-defaulting Clearing Participants.

Clearing Participants' ongoing compliance with JSCC's rules and procedures demonstrates their understanding, and confirms that the rules and procedures are clear and comprehensive.

JSCC's Business Rules provide for issuing improvement orders when JSCC recognizes a deficiency in a Clearing Participant's business execution structure. Through this, JSCC is capable of issuing corrective measures to the Clearing Participant demonstrating a deficiency in understanding of JSCC's rules and procedures and the risks pertaining to participation.

**Key Consideration 4:**

**An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.**

JSCC publicly discloses the clearing fee structure on its website. Rules relating to fees, including details of fee rates for each product and the details of discounts, are set forth in the rules for each of JSCC's Clearing Businesses.

In cases of revisions to the clearing fee structure, JSCC will consult with advisory committees, such as the User Committee (Listed Products), the CDS Risk Management Committee, the IRS Management Committee, and the OTC JGB Management Committee, which are composed of major users, and conduct consultation procedures, including public disclosure of an outline of the revisions and publication of details of rule revisions on JSCC's website.

JSCC provides information on its system design, technology, and communication specifications to existing Clearing Participants and firms seeking to become Clearing Participants, thereby enabling such parties to estimate the costs related to participation.

**Key Consideration 5:**

**An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.**

This document is JSCC's disclosure pursuant to the CPSS-IOSCO "Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology." JSCC will update this disclosure document if there are any significant changes, or at a minimum every two years.

JSCC also publishes on its website, quantitative information pursuant to the "Public quantitative disclosure standards for central counterparties" published by CPMI-IOSCO.

Additionally, JSCC discloses statistical information for each of its Clearing Businesses in English and Japanese on its website. This information includes the following:

- Cleared volume and value for Listed Products;
- Cleared value and trade counts for CDS;
- Cleared value and trade counts for IRS; and
- Cleared volume, value and trade counts for OTC JGB.

JSCC discloses a wide range of other information in English and Japanese on its website. This information includes the following:

- Eligible products for Clearing;
- Clearing Participant qualification criteria;
- Existing Clearing Participants;
- Information about JSCC's clearing and settlement operations; and
- Outline of overall risk management framework (including margin framework).

**Principle 24: Disclosure of Market Data by Trade Repositories**

*A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.*

Because JSCC does not provide functions as a TR, this principle does not apply.

## V. List of Publicly Available Information

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### **JSCC Business Rules**

<http://www.jsc.cco.jp/en/rule/rule.html>

### **JSCC Annual Report**

<http://www.jsc.cco.jp/en/company/annual.html>

### **JSCC Management and Financial Information**

<http://www.jsc.cco.jp/en/company/management-financial-information.html>

### **JSCC Company Profile**

<http://www.jsc.cco.jp/en/company/profile.html>

### **JSCC Clearing Qualification Criteria and List of Clearing Participants**

<http://www.jsc.cco.jp/en/participant.html>

### **JSCC Statistics**

-Listed Products

[http://www.jsc.cco.jp/en/listed\\_products](http://www.jsc.cco.jp/en/listed_products)

-Japanese Government Bonds

<http://www.jsc.cco.jp/en/jgbcc>

-Credit Default Swaps

[http://www.jsc.cco.jp/en/credit\\_default\\_swap](http://www.jsc.cco.jp/en/credit_default_swap)

-Interest Rate Swaps

[http://www.jsc.cco.jp/en/interest\\_rate\\_swap](http://www.jsc.cco.jp/en/interest_rate_swap)

### **JSCC Clearing Fees**

<http://www.jsc.cco.jp/en/data/clearingfee.html>

### **JSCC Clearing & Settlement**

<http://www.jsc.cco.jp/en/cash.html>

**Japan Exchange Group (JPX)  
Tokyo Stock Exchange, Inc. (TSE)  
Osaka Exchange, Inc. (OSE)**

<http://www.jp.cco.jp/english/>

### **Financial Instruments and Exchange Act**

<http://www.fsa.go.jp/common/law/fie01.pdf>

**Cabinet Office Ordinance on Financial Instruments Clearing Organization, etc.**

<http://www.japaneselawtranslation.go.jp/law/detail/?id=2486&vm=04&re=02&new=1>

**Comprehensive Guidelines for Supervision of Financial Market Infrastructures**

<http://www.fsa.go.jp/en/news/2014/20140327-1/01.pdf>

**Companies Act**

<http://www.japaneselawtranslation.go.jp/law/detail/?id=2035&vm=04&re=02>

**Civil Code**

<http://www.moj.go.jp/content/000056024.pdf>

**Act of Recognition of and Assistance for Foreign Insolvency Proceedings**

[http://www.japaneselawtranslation.go.jp/law/detail\\_main?vm=&id=1935](http://www.japaneselawtranslation.go.jp/law/detail_main?vm=&id=1935)

**Deposit Insurance Act**

<http://www.japaneselawtranslation.go.jp/law/detail/?id=956&vm=04&re=02&new=1>

**Trust Act**

<http://www.japaneselawtranslation.go.jp/law/detail/?id=1936&vm=04&re=02>

**Banking Act**

<http://www.japaneselawtranslation.go.jp/law/detail/?id=2196&vm=04&re=01&new=1>

**Act on Book-Entry Transfer of Company Bonds, Shares, etc.**

<http://www.japaneselawtranslation.go.jp/law/detail/?id=2451&vm=04&re=02&new=1>

**Bank of Japan**

<http://www.boj.or.jp/en/index.htm/>

**Bank of Japan Act**

<http://www.japaneselawtranslation.go.jp/law/detail/?id=92&vm=02&re=01>

**The Bank of Japan Policy on Oversight of Financial Market Infrastructures**

[https://www.boj.or.jp/en/announcements/release\\_2013/data/rel130312a.pdf](https://www.boj.or.jp/en/announcements/release_2013/data/rel130312a.pdf)

**Rules on Current Deposit Account (Japanese only)**

<https://www.boj.or.jp/paym/torihiki/touyo08.htm/>

**Japan Securities Depository Center, Inc.**

<https://www.jasdec.com/en/>

**Japan Securities Dealers Association**

<http://www.jsda.or.jp/en/>

**The Center for Financial Industry Information Systems (FISC)**

<https://www.fisc.or.jp/english/>

**Principles for Financial Market Infrastructures**

<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD377.pdf>

**Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology**

<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD396.pdf>

**Implementation monitoring of PFMIs: Level 2 assessment report for central counterparties and trade repositories - Japan**

<http://www.bis.org/cpmi/publ/d127.htm>

**European Market Infrastructure Regulation (EMIR)**

[http://eur-lex.europa.eu/legal-content/EN/ALL/;ELX\\_SESSIONID=9hKITthNJ5HW5KnGDSpbvrKNyRWRtyFKpwkTXvKHKG3LvCSFxph3!688603561?uri=CELEX:32012R0648](http://eur-lex.europa.eu/legal-content/EN/ALL/;ELX_SESSIONID=9hKITthNJ5HW5KnGDSpbvrKNyRWRtyFKpwkTXvKHKG3LvCSFxph3!688603561?uri=CELEX:32012R0648)

**Commodity Exchange Act**

<https://www.law.cornell.edu/uscode/text/7/chapter-1>

**CFTC Regulation**

[http://www.ecfr.gov/cgi-bin/text-idx?sid=7c421620fdc60314ab8fd9de494af74e&c=ecfr&tpl=/ecfrbrowse/Title17/17tab\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?sid=7c421620fdc60314ab8fd9de494af74e&c=ecfr&tpl=/ecfrbrowse/Title17/17tab_02.tpl)

**Australian Corporations Amendment (Central Clearing and Single-Sided Reporting) Regulation 2015 -F2015L01411**

<https://www.comlaw.gov.au/Details/F2015L01411>

## VI. Glossary

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<b>API</b>	Application Programming Interface
<b>BCP</b>	Business Continuity Plan
<b>BOJ</b>	Bank of Japan
<b>CB</b>	Convertible Bonds
<b>CCO</b>	Chief Compliance Officer
<b>CCP</b>	Central Counterparty
<b>CDS</b>	Credit Default Swap
<b>CFTC</b>	The U.S. Commodity Futures Trading Commission
<b>CPSS</b>	The Committee on Payment and Settlement Systems
<b>CRO</b>	Chief Risk Officer
<b>CSD</b>	Central Securities Depository
<b>DVP</b>	Delivery Versus Payment
<b>EMIR</b>	European Market Infrastructure Regulation
<b>ESMA</b>	European Securities Market Authority
<b>ETF</b>	Exchange Traded Fund
<b>FIEA</b>	Financial Instruments and Exchange Act
<b>FISC</b>	The Center for Financial Industry Information Systems
<b>FMI</b>	Financial Markets Infrastructure
<b>FOS</b>	Fund Only Settlement
<b>IOSCO</b>	The International Organization of Securities Commissions
<b>ISMS</b>	Information Security Management System
<b>JFSA</b>	Japan Financial Services Agency
<b>JGB</b>	Japanese Government Bond
<b>JGBCC</b>	Japanese Government Bond Clearing Corporation
<b>JPX</b>	Japan Exchange Group, Inc.
<b>JPY</b>	Japanese Yen
<b>JSCC</b>	Japan Securities Clearing Corporation
<b>LIBOR</b>	London Interbank Offered Rate
<b>OSE</b>	Osaka Exchange, Inc.
<b>OTC</b>	Over the Counter
<b>PFMI</b>	Principles for Financial Market Infrastructure
<b>POMA</b>	Post Offset Margin Amount
<b>PTS</b>	Proprietary Trading System
<b>REIT</b>	Real Estate Investment Trust
<b>RTGS</b>	Real-Time Gross Settlement
<b>SDR</b>	Swap Data Repository
<b>SEF</b>	Swap Execution Facility
<b>SSS</b>	Securities Settlement System
<b>STP</b>	Straight Through Processing
<b>SWIFT</b>	Society for Worldwide Interbank Financial Telecommunication
<b>TCCCP</b>	Third Country CCP
<b>TCP</b>	Transmission Control Protocol
<b>TR</b>	Trade Repository

<b>TSE</b>	Tokyo Stock Exchange, Inc.
<b>TSS</b>	Tosho System Service Co., Ltd.
<b>VaR</b>	Value-at-Risk