(Tentative translation)

The Japanese Government Securities Guidelines for Real Time Gross Settlement

December 10, 2013 Version

（Enforced on October 13, 2015）

Japan Securities Dealers Association

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I. General

1. Purpose

In light of the growing necessity globally to implement measures to reduce settlement risks for financial transactions in recent years, the Bank of Japan introduced “Real Time Gross Settlement” (hereinafter referred to as “RTGS”) for government securities settlements through the Bank of Japan Financial Network System JGB services (hereinafter referred to as the “BOJ-NET JGB services”) and for funds settlements through the funds transfer system of the BOJ-NET on January 4, 2001.

With the introduction of RTGS in government securities transactions, market participants were required to adopt new settlement procedures that were quite different from those used in the past, and to deal with potential increases in the volume of settlements. Because of these circumstances, Japan Securities Dealers Association (JSDA) set up a “study group concerning the introduction of RTGS for government securities” composed of securities firms, banks, trust banks and life insurance companies, and released recommendations on new market practices to provide a foundation for guidelines.

On the basis of those recommendations and assuming the observance of the RTGS-related rules of the BOJ-NET JGB services, the Association produced “The Japanese Government Securities Guidelines for Real Time Gross Settlement” (hereinafter referred to as the “Guidelines”) in August, 2000, laying out the practices that market participants must follow to ensure a smooth shift to RTGS, to reduce settlement risks in the changed environment and to facilitate smooth settlements in government securities transactions. Thereafter the Association has been appropriately updating the Guidelines.

In May 2009, "The Working Group concerning Review of Fails Practice for Bond Trading" was established as a subordinate organization of JSDA’s Bonds Committee, in the wake of outbreak of the global financial crisis in 2008. With the intention of further instilling the Fails Practice while preventing frequent occurrence of Fails, the working group discussed to review the ongoing Fails Practice and other bond settlement procedures, taking into consideration global trends in offshore settlements in yen and others. Such discussions covered review of the scope of DVP settlements eligible for being processed under the Fails Practice. In April 2010, the working group published its final report, based on which JSDA amended these Guidelines in June 2010, with effect from November 1, 2010.

In September 2009, "The Working Group on Shortening of JGB Settlement Cycle" was established as a subordinate organization of "The Council on Reform of Delivery and Clearing/Settlement of Securities" and "The Forum on Reform of Securities Clearing and Settlement System", both of which were set up by JSDA. This working group had discussions on the shortening of the settlement periods for JGB with a view to reducing settlement risks in government securities transactions and published an interim report in December 2010. Then, given that the standard settlement cycle would be shortened to T+2 from T+3 for JGB outright transactions, the working group drew up a proposal for digitization of the trade matching process for bilateral netting and rules for payments netting of transactions with different face values in March 2011. Based on this proposal, Section IV of the Guidelines, “Guidelines concerning bilateral netting,” was revised in June 2011, with effect from April 23, 2012.

In December 2013, these Guidelines were thoroughly amended in line with the second phase launch of the new BOJ-NET. The amended Guidelines are supposed to be enforced from the date of the second phase launch of the new BOJ-NET (October 13, 2015).

The Association hopes the Guidelines will enable all market participants to achieve smoother government securities transactions under RTGS.

It should be noted that the Guidelines do not inhibit, in anyway whatsoever, market participants’ rights as guaranteed by law.

2. Effective date of the amended Guidelines

These Guidelines as amended will take effect on October 13, 2015.

II. Guidelines for ensuring smooth settlements

1. Limitation on size of settlements

(1) The upper limit on size of settlements through the BOJ-NET JGB services

Each market participant shall set an upper limit on size of settlements processed through the BOJ-NET JGB services at ¥5 billion in face value, in order to curb the daytime accumulation of settlements outstanding and to resolve the delay of settlements by reducing the amounts of government securities and funds necessary per settlement.

It should be noted that this provision does not hamper transactions with face value exceeding the said upper limit.

(2) How to handle transactions with face value exceeding the upper limit

i. Market participants who have made government securities transactions with face value exceeding the ¥5 billion limit shall input processing data via the BOJ-NET JGB services by splitting the transactions in such a way that each size does not exceed ¥5 billion.

ii. For the purpose of preventing confusion arising from the discrepancy between the contract amount and the settlement amount after splitting the transaction into smaller sizes, the market participants concerned shall split agreement slips into units each of which does not exceed ¥5 billion in face value.

(3) Exclusion of application of the limitation on size of settlements

The limitation on size of settlements does not apply to the following transactions in light of their nature:

i. Transactions with the Bank of Japan (such as purchase and sales operations for T-Bill and long-term government bonds and payment for newly issued government securities)

ii. Transactions with the Fiscal Loan Fund and the National Debt Consolidation Fund

iii. Transactions relating to pledge or release of collateral (transactions in Proprietary Ledger II or IV)

2. Message flow for JGB settlement and cancellation of application for delivery-versus-payment transfer of JGB

(1) Message flow

Settlements among market participants are, in principle, subject to the message flow described as follows. First, the participant to a transaction who is to deliver government securities (hereinafter referred to as the "delivering participant") transmits an application for delivery-versus-payment transfer of JGB (Settlement instruction category: JGB) on the settlement date. Then, the participant who is to receive the government securities to be delivered (hereinafter referred to as the "receiving participant") transmits a settlement instruction (for money transfer).
Any settlement deviating from this principle requires mutual agreement between the delivering and receiving participants in advance.

(2) Cancellation of application for delivery-versus-payment transfer of JGB

An application for delivery-versus-payment transfer of JGB (Settlement instruction category: JGB) may be cancelled solely by the participant transmitting the request. If a market participant has mistakenly cancelled a request for delivery versus payment transmitted by any other market participant, the market participant first mentioned shall immediately inform those counterparties and take appropriate steps.

3. Adoption of Cut-off Time and Reversal Time

(1) Adoption of Cut-off Time

i. The Cut-off Time means the deadline for government securities settlements set before the end time of the BOJ-NET JGB services, as determined by market participants for the purpose of recognizing Fails[1], etc. with the aim of facilitating completion of daily settlements.
ii. Market participants shall, in principle, complete all transmissions of applications for delivery-versus-payment transfer of JGB (Settlement instruction category: JGB) by the Cut-off Time.
iii. The Cut-off Time is 2:00 p.m. (applicable to the government securities subject to principal and interest payment due on the same day, other than those transferred to or from Deposit (*kyotaku*) Account).

(2) Adoption of Reversal Time

i. The Reversal Time means the period during which the participants to the relevant contract may resolve a Fail, if they have agreed to extend the delivery deadline beyond the Cut-off Time, or correct any other errors in settlement

[1] Refer to III. 1 regarding "Fails."

procedures.

ii. The Reversal Time is the period from the Cut-off Time to the close of the core hours for the BOJ-NET JGB services, i.e., from 9:00 a.m. to 4:30 p.m. (hereinafter referred to as the “Core Hours”).

However, the last 30 minutes before the close of the Core Hours shall be used mainly for correcting errors in settlement procedures[2].

With regard to error corrections or other operations for the government securities subject to principal and interest payment due on the same day (excluding those transferred to or from Deposit (*kyotaku*) Account), the Reversal Time is up to 3:00 p.m., which time is the deadline for inputting book-entry transfers.

4. Guiding principles for market participants applicable on the settlement date

(1) Guiding principles to be observed by 12:00 noon on the settlement date

i. An application for delivery-versus-payment transfer of JGB (Settlement instruction category: JGB) shall be transmitted by the delivering participant as early as possible after the start of the Core Hours. Then, the receiving participant shall promptly confirm the settlement information and transmit a settlement instruction (for money transfer).

ii. Market participants remitting funds for government securities issuance shall pay the issuance price as soon as possible after the start of the Core Hours in order to ensure smooth settlements in the secondary market of the new government security on the issuance date.

iii. If a delivering participant has any unsettled position in government securities, this market participant is not allowed to transmit an application for delivery-versus-payment transfer of JGB (Settlement instruction category: JGB) which is conditional on receipt of government securities from a third participant.

iv. All transfer messages to be transmitted through the BOJ-NET JGB services shall not be batched, but be sent as soon as possible.

v. The time of settlement shall not be designated through the BOJ-NET JGB services.

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[2] The Reversal Time based on the operating schedule for the Core Hours for the BOJ-NET JGB services is the period from 2:00 p.m. to 4:30 p.m. The period from 4:00 p.m. to 4:30 p.m. in the Reversal time shall be used mainly for correcting errors in settlement procedures.

vi. If an application for delivery-versus-payment transfer of JGB (Settlement instruction category: JGB) contains an error, the person who has received a message communicating the receipt of the advice of the application as aforesaid shall promptly inform the sender of the application and confirm the contents contemplated by the application together with the sender, and then both participants shall promptly take necessary steps to complete the settlement.

vii. Ordinarily, the first priority for order of settlement shall be placed on large-size settlements to minimize the negative effects of Fails, and/or to enhance the progress of operations. However, because there may be cases where operations are delayed by giving priority to large-size settlements, the participants concerned shall be aware of actual conditions and execute settlement procedures accordingly.

viii. It must be noted that market participants shall make every effort to finish settlements by 12:00 noon in order to facilitate smooth completion of daily settlements.

(2) Guiding principles to be observed from 12:00 noon to the Cut-off Time on the settlement date

i. The participant whose settlement remains unexecuted at 12:00 noon shall confirm its details, inform the other participant causing the gridlock and request the other participant to promptly transmit an application for delivery-versus-payment transfer of JGB (Settlement instruction category: JGB) or a settlement instruction (for money transfer).

ii. If a settlement is expected to be completed near the Cut-off Time, the delivering participant shall inform the receiving participant as early as possible to facilitate the settlement, and make maximum efforts to avoid a situation where application for delivery-versus-payment transfer of JGB (Settlement instruction category: JGB) is transmitted without prior notice.

iii. Market participants shall keep to the Cut-off Time, fully recognizing that it is necessary to secure a reasonable length of the Reversal Time to ensure that settlements are efficiently completed.

(3) Guiding principles to be observed after the Cut-off Time on the settlement date

Market participants shall take necessary steps in good faith to complete the settlements through use of the Reversal Time.

(4) Settlements outside the Core Hours

The guiding principles described in (1) to (3) above are not intended to preclude market participants from performing settlements before or after the Core Hours.

5. Facilitation of settlements for Customer Ledgers in the BOJ-NET JGB services

In light of risk reduction and ensuring smooth settlements, market participants are required to note the following guidelines with regard to settlements through Customer Ledgers etc.:

(1) Transition to DVP settlement

From the aspect of reducing settlement risk, it is recommended that DVP (Delivery Versus Payment) settlement shall be introduced by Indirect Participants of the BOJ-NET JGB services (which means Indirect Participants, foreign Indirect Participants, and customers under the JGB Book-entry System) by making good use of Customer Ledgers , as well as by Direct Participants (which means participants under the JGB Book-entry System) who do not have a current account at the Bank of Japan by making good use of funds transfer through agencies.

(2) Confirmation of service procedures

For settlements of funds for Customer Ledgers, related service procedures need to be confirmed between each Direct Participant and its respective customer who is to request settlements on an individual basis.

In the case of making an arrangement to settle funds through a Customer Ledgers etc., it should be noted that the participants shall by no means hamper the trend toward conversion to RTGS or put one of the participants in an extremely exposed situation.

(3) Proper use of the message fields in the BOJ-NET JGB services

i. In order for Direct Participants in the BOJ-NET JGB services to smoothly respond to inquiries and identify the customers who request the Direct Participants to carry out settlements for their respective accounts, the Direct Participants shall properly use the message fields provided in the BOJ-NET JGB services[3].

ii. Some examples of using the message fields are illustrated as follows.

[3] Market participants may use the message column not only for DVP settlement but also for Free of Payment (FOP) settlement.

A) Transactions with financial institutions, security firms or nonresidents are subject to the rules described in 5(3)iii below.

B) With regard to Indirect Participants or customers other than those mentioned in A) above, specific codes or numbers are not designated under these Guidelines; instead, their data are input in accordance with the manner to be agreed upon between the Direct Participants acting as the participants to the settlement.

iii. Mapping input fields

In the message fields provided in the BOJ-NET JGB services, relevant codes and values are input in the formats specified as follows.

A) "11.3 Party2" in "11.0 DeliveringSettlementParties" or "12.3 Party2" in "12.0 ReceivingSettlementParties" when using the BOJ-NET JGB services through computer connection ("CPU-to-CPU connection) or through the file upload and download function ("ULDL") in the ISO 20022 format

- Message (Person Associated with Delivering Participant1) and Message (Person Associated with Receiving Participant 1) on the input screen

i) "Any BIC" field (12.16.1)

- If the customer is a non-resident, its BIC code is specified in the BIC field.

ii) "Identification (Non-BIC)" field (12.16.3) and "Issuer" field (12.16.4)

- In the Identification (Non-BIC) field, a customer's 4-digit bank identification code is specified if the customer is a financial institution, and a customer's 4-digit securities identification code is specified if the customer is a securities firm.
- In the Issuer field, "BA" is input if the customer is a financial institution, and "SC" is input if the customer is a securities firm.
- If the customer is a non-resident not bearing a BIC code or other similar non-resident, its identification code or something equivalent is specified in the Identification (Non-BIC) field and "NR" is input in the Issuer field.
- For mapping of a fund code, the fund code is specified in the Identification (Non-BIC) field and "FN" is input in the Issuer field.

B) "16.2 QualifiedForeignIntermediary" when using the BOJ-NET JGB services through CPU-to-CPU connection or ULDL in the ISO 20022 format

- Message (Qualified Foreign Intermediary) on the input screen

i) “Any BIC” field (12.15.1)

- The BIC code is specified in this field.

ii) “Identification (Non-BIC)” field (12.15.3) and “Issuer” field (12.15.4)

- No values are specified in these fields.

* Given that it is likely that the procedures for specified public or corporate bonds will be reviewed and revised after the go-live of the new BOJ-NET and it may therefore be necessary to maintain the ongoing rules concerning input of the information about qualified foreign intermediaries at the time of the phase-2 go-live, the input rules of B) above are described here.

iv. Other special instructions

- When inputting values in the message fields, one-byte alphanumeric or kana characters are used in principle and line break codes are not allowed.
- When using a BIC code for transactions with a securities firm or financial institution as the counterparty, prior agreement between both participants is required.

v. When a Direct Participant is processing any settlement for its house account, its own identification code is not input in the message field.

(4) Proper use of trading IDs in the BOJ-NET JGB services

i. With the aim of enabling market participants acting in the capacity of the delivering participant, receiving participant or other settlement participant to easily identify the transactions to be processed, and in terms of conformity with the ISO 20022 message formats, market participants shall use a trading ID, which is an input/output item newly introduced in the new system.

ii. A trading ID is used, for example, as illustrated below.
The content of a trading ID can be specified at the discretion of a sender of an application for delivery-versus-payment transfer of JGB (Settlement instruction category: JGB) or money transfer.
However, after an application for delivery-versus-payment transfer of JGB (Settlement instruction category: JGB) has been transmitted to the Bank of Japan, the reference number of an advice/ an acknowledgement of application for delivery-versus-payment transfer of JGB and the reference number of a message designating the settlement based on the application for delivery-versus-payment transfer of JGB are used as the key to identify the settlement in question and verify its uniqueness.

(5) Setting the type of a transaction

When inputting data in the “Transaction Type” fields through CPU-to-CPU connection or ULDL (9.0 SettlementParameters, 11.32.16 SecuritiesTransactionType, 11.32.18 Proprietary), a value “TRFR” is input in “11.32.19 Identification” and a value “BOJ” is input in “11.32.20 Issuer.” This setting enables data output in the same way as transmitted through the BOJ-NET terminal.

(6) Restriction on use of data items in ISO 20022-compliant formats

If a telegraph format contains non-mandatory fields or fields for such items that are unavailable on the BOJ-NET terminal screen, those fields may not be used in principle.

6. Points to consider in ensuring smooth settlements

(1) It is recommended that market participants handling a large volume of transactions establish their own internal organization to check settlement-related data in their computers, and to input necessary data quickly after checking the balance of government securities and/or funds via the BOJ-NET. (It would be effective for these market participants to connect their computers to the BOJ-NET.)

(2) The Bank of Japan has introduced the SPDC, which provides liquidity for qualified participants throughout the day to cope with possible increases in funds demand under RTGS. Each market participant shall take the necessary steps to control delays in settlement resulting from shortage of funds by good use of the SPDC and so on.

It is recommended that market participants pay close attention to ensuring adequate funds to cover the haircut rate of collateral (shortage of collateral) beforehand when planning to use the SPDC.

(3) Market participants shall not transmit an application for delivery-versus-payment transfer of JGB (Settlement instruction category: JGB) if it is to cause a deficit in the balance of government securities.

(4) Some settlements in which government securities and funds are processed independently (FOP settlement), or government securities are transferred by documentation have higher risks in comparison with DVP settlement, and require considerable effort to maintain comprehensive control on the updated balance of government securities and/or funds, as well as the timing of settlement. Therefore,

market participants capable of DVP settlement are required to process settlements via DVP settlement as much as possible.

(5) If an application for delivery-versus-payment transfer of JGB (Settlement instruction category: JGB) is postdated, it shall be ensured that a deficit in the balance will never occur on the settlement date.

(6) When processing change of a distribution of interest recipient in advance, it shall be ensured that a deficit in the balance will never occur for the purpose of interest calculation.

(7) When requesting change of a distribution of interest recipient on a real-time basis, such a request shall be promptly input.

(8) When completing or cancelling change of a distribution of interest recipient (Completion/Cancellation: Completion), it shall be processed after confirming that other necessary processing of such change has been completed on the part of of both the receiving participant and the delivering participant.

(9) If a transaction being conducted is governed by applicable rules concerning message formats, trading IDs or other matters relating to settlement procedures prescribed by the Bank of Japan or Japan Securities Clearing Corporation, those rules shall apply, regardless of what is specified in these Guidelines.

III. Guidelines concerning Fails

1. Definition of a Fail

A Fail means a situation whereby the receiving participant is unable to receive government securities to be delivered by the other participant while the predetermined settlement date has passed.

2. Good-faith efforts to resolve Fails

Fails are not recommendable situations. Frequent occurrence of Fails may hinder the primary objective of facilitating smooth transactions and securing market liquidity.

Market participants shall therefore make all possible efforts to avoid Fails. If a Fail unavoidably occurs, the participants to the contract shall act in good faith to resolve the Fail as soon as possible.

If the receiving participant suffering from a Fail caused by the delivering participant asks for explanations about situations leading to the Fail, the delivering participant shall endeavor to provide sufficient explanations.

3. Premises for the guidelines concerning Fails

(1) Market participants shall note that in view of the policy regarding costs incurred under Fails as described below, they can treat situations as Fails only in respect of the DVP transactions (including the settlements of government securities against the payments of funds on the same date, in the cases where an agreement to that effect has been made between the participants to the transaction while their mutual claims and debts being preserved explicitly).

DVP transactions include overseas DVP settlements, such as those settled in Euroclear or Clearstream.

(2) Transactions subject to the guidelines concerning Fails are purchase and sale transactions and repo transactions (meaning initial sale contracts and repurchase contracts in conditional purchase and sale transactions and lending and returning in lending transactions; hereinafter the same applies).

(3) Delivery in the purchase and sale transactions and the repo transactions shall be conducted according to the manner stipulated in Article 4 of the “Rules Concerning Handling of Short Selling, and Borrowing and Lending Transactions of Bonds” in the case of short sale in the purchase and sale transactions, and according to the manner stipulated in Article 11 of the “Rules Concerning Handling of Short Selling, and Borrowing and Lending Transactions of Bonds” or Article 13 of the “Rules

Concerning Handling of Conditional Sale and Purchase of Bonds, etc.” in the case of repo transactions.

(4) Market participants shall not exercise the right of cancellation on the grounds of the occurrence of Fails.

(5) The participant receiving government securities is not allowed to leave the transaction unsettled on the grounds of fund shortage.

(6) Market participants shall mutually deal on their own with all settlements remaining incomplete other than Fails prescribed in these Guidelines.

4. Understanding of costs arising from Fails

(1) The participant causing a Fail will, since it is unable to receive funds payable by the participant receiving government securities, have to incur some funding costs for holding the government securities and will further have to give up profit that could be earned by investing such funds. Moreover, accrued interest to be received by such failing participant will only be for the period up to the scheduled settlement date.

(2) The participant suffering from a Fail will, contrary to the above, be able to receive interest accrued from the scheduled settlement date to the date of actual receipt of the government securities and will further also be entitled to invest funds in hand retained due to the uncompleted settlement.

(3) Under the circumstances of a low interest rate, the economic rationality stated in Items (1) and (2) above may not work effectively, and there may be a concern about frequent occurrence of Fails. Therefore, the receiving participant suffering from a Fail will be entitled to claim a Fails Charge (meaning a certain monetary burden imposed on the delivering participant causing a Fail; hereinafter the same applies) against the delivering participant causing the Fail.

(4) Therefore, no specific penal provisions have been established for Fails, and no payments of default interest, etc. will be required.

5. Handling of Fails Charges

(1) Preparations before the introduction of Fails Charges, and the practice concerning calculation and claim, payment and receipt and other operations of Fails Charges shall be conducted according to the “Practical Guidelines for Handling of Fails Charges” (hereinafter referred to as the “Guidelines for Fails Charges”) which is established separately.

(2) Market participants can claim Fails Charges in connection with all transactions on a

DVP basis.

(3) In introducing Fails Charges, market participants shall note that a prior agreement shall be made between the participants to the transaction by giving a prior notice to the other participant as prescribed in the Guidelines for Fails Charges or by any other means.

(4) Fails Charges shall be calculated according to the following formula (See the Guidelines for Fails Charges for the definitions of terms and other explanations used in the calculation formula).

$$\sum_{\text{Fail period}} 1/365 \times \max(3\% - \text{Reference rate}, 0) \times \text{Amount of funds delivered}$$

6. Handling of Fails around the Cut-off Time

(1) If it is confirmed at the Cut-off Time that an application for delivery-versus-payment transfer of JGB (Settlement instruction category: JGB) has not been successfully transmitted for any contract, this situation shall be treated as a Fail, except where otherwise agreed upon between the participants to the contract.

Market participants may recognize a Fail for any contract at the time of confirming that an application for delivery-versus-payment transfer of JGB (Settlement instruction category: JGB) has not yet been transmitted, even before the Cut-off Time, if it is agreed upon between both participants in advance. In this regard, it must be noted that a Fail shall be recognized for all transactions that are not settled before the close of the Core Hours(*), regardless of any prior agreement between both participants to the contrary.

(*) If both participants agree to execute contracts during the period from the close of the Core Hours to the end time of the BOJ-NET JGB services, the “close of the Core Hours” in the foregoing sentence shall be read as the “end time of the BOJ-NET JGB services.”

(2) When facing a situation falling under (1) above, the market participants shall respond in good faith to avoid frequent occurrence of Fails.

7. Payment and receipt when interest payment or redemption occurs before resolving a Fail

(1) If interest is paid before a Fail is resolved, the receiving participant shall demand that the delivering participant pay an amount equivalent to interest payable. Then, the delivering participant shall pay the amount to the receiving participant.

(2) If the securities are redeemed before a Fail is resolved, the receiving participant shall demand that the delivering participant pay an amount equivalent to interest

payable and the amount to be repaid. Then, the delivering participant shall pay such amount to the receiving participant on condition the delivering participant shall receive the amount to be settled under the original contract for the relevant securities from the receiving participant.

In the case where the securities are redeemed prior to resolution of Fails, market participants shall note that the contract between the participants is regarded as completed by this payment.

IV. Guidelines concerning bilateral netting

1. Standard netting scheme

Market participants shall note that they are not required to provide documentation but are required to reach prior agreements between the participants when executing netting according to these Guidelines[4].

(1) Netting structure

If there are such outstanding obligations due on the same day between both participants that can pair with each other (whereby each participant is to deliver government securities and pay funds to the other), the participants shall offset their respective delivery and payment obligations for the respective security or fund and then settle the net balance between them. Moreover, unless and until such net balance is settled, the rights and obligations under the original contracts to be netted shall remain effective as they are. (This netting method is hereinafter referred to as "bilateral payments netting.")

(2) Volume to be netted

Bilateral payments netting may be performed for two offsetting transactions for the same government security with the same face value. (Netting for such paired transactions is hereinafter referred to as a "pair off.")

(3) Settlement methods that can be covered by netting

Bilateral payments netting may be performed for transactions subject to DVP settlement.

(4) Deadline for trade matching before netting

To perform bilateral payments netting for certain contracts, their trade matching shall be completed[5] by the deadline for trade matching (from 3:30 p.m. to 3:45) on the business day immediately preceding the delivery date for those contracts.

(5) Types of transactions eligible for netting

Bilateral payments netting may be performed for a combination of purchase and sale transactions (including conditional purchase and sale), a combination of cash collateral securities borrowing and lending transactions, and a combination of any of the foregoing transactions[6].

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[4] JSDA has obtained legal counsel's opinion stating that bilateral netting prescribed by these Guidelines is valid under Japanese laws.

[5] If the Pre-Settlement Matching System (PSMS) provided by Japan Securities Depository Center, Incorporated is used for trade matching described here, the completion of such trade matching is recognized when the reported selling and purchasing data are approved or match each other through the PSMS.

[6] In this context, the term "conditional purchase and sale" refers to initial sale

(6) Mode of possession

Securities eligible for bilateral payments netting shall be book-entry transfer government securities.

(7) Transaction accounts eligible for netting

Bilateral payments netting shall be performed between the accounts of the same type and shall not be performed between different types of accounts.

(8) Pairing method

Pairing for bilateral payments netting shall be made in descending order of the amount to be delivered.

If there are multiple transactions with the same delivery amount, how to select the transactions to be paired shall be determined by the market participants concerned.

(9) Entry into effect of netting for transactions with the same delivery amount

If the delivery amounts to be netted for both transactions are equal to each other and it is therefore unnecessary for both participants to pay and receive any difference amount in the bilateral payments netting operation, this netting shall take effect at 8:30 a.m. on the settlement date, which is the start time for settlements through the BOJ-NET on the said settlement date (or at 7:30 a.m. on the day of operating time of the BOJ-NET JGB services is extended).

(10) Designation of the account used for fund settlement

For fund settlement for bilateral payments netting, market participants shall, in principle, designate their current account with the Bank of Japan.

2. Alternative netting scheme based on the standard netting scheme

(1) With a view to reducing the settlement volume across the entire market with the aim of enhancing back-office efficiency and mitigating the burden of providing funds, market participants may adopt an alternative netting scheme if both participants agree to do so, on condition that priority is given to use of the standard netting scheme. The alternative netting scheme in this context means a scheme for netting for transactions for the same government security with different face values which is designed by adopting the scheme of “bilateral payments netting” defined in Section IV.1 “Standard netting scheme” and then modifying the conditions described in (2) and (8) of Section IV.1 (hereinafter referred to as “bilateral payments netting between different face values”).

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transactions and repurchase transactions in conditional purchase and sale transactions, and the term "cash collateral securities borrowing and lending transactions" refers to borrowing and lending of relevant securities.

However, when using this alternative scheme, the conditions described in (3) to (7), (9) and (10) of Section IV.1 shall be fulfilled in the same way as required under the standard netting scheme, with a view to ensuring settlement efficiency.

(2) Bilateral payments netting between different face values pursuant to (1) above shall be performed by either of the methods of one-to-one netting or consolidated netting described as follows, to be adopted based on mutual agreement between the market participants concerned, rather than following the condition of Section IV.1(8).

i. One-to-one netting between different face values

When pairing transactions to perform one-to-one netting between different face values, the following steps shall be taken for the transactions that have not been covered by any pair off under the standard netting scheme.

A) For the transactions not covered by any pair off, pairing is made in descending order of the face value.

B) If there are multiple transactions with the same face value, pairing is made in descending order of the amount to be delivered.

C) If there are multiple transactions bearing the same delivery amount and the same face value, pairing is made in chronological order of the contract date.

D) If there are multiple transactions bearing the same delivery amount, the same face value and the same contract date, how to select the transactions to be paired is determined by the market participants concerned.

ii. Consolidated netting between different face values

Consolidated netting between different face values is bilateral payments netting between different face values performed by settling the difference obtained by calculating the total amount to be settled for the transactions for the same government security that have not been covered by any pair off under the standard netting scheme.

When pairing transactions to perform consolidated netting between different face values, the following steps shall be taken.

A) For all the transactions not covered by any pair off, the total amount to be delivered by the delivering participant and the total amount to be received by the receiving participant are calculated for each government security[7].

B) All the transactions constituting the total amount to be delivered or the total amount to be received calculated under A) above, whichever is the

[7] The total amount to be delivered and the total amount to be received are calculated based on the face values of relevant securities.

greater, are sorted in accordance with the following steps.

(a) Sorting in descending order of the face value

(b) Sorting in descending order of the amount to be delivered, if there are multiple transactions with the same face value

(c) Sorting in chronological order of the contract date, if there are multiple transactions bearing the same delivery amount and the same face value

(d) Sorting by the method to be determined by the market participants concerned, if there are multiple transactions bearing the same delivery amount, the same face value and the same contract date

C) The transactions sorted pursuant to B) above are added up in the sorting order specified therein until the aggregate amount reaches the total amount to be delivered or the total amount to be received calculated under A) above, whichever is the smaller.

D) The total amount to be delivered or the total amount to be received calculated under A) above, whichever is the smaller, and the total amount obtained under C) above are offset.

E) All other transactions not covered by consolidated netting between different face values under D) above are settled on a gross basis.

(3) In order to further encourage market participants to adopt netting with a view to reducing the settlement volume across the entire market, market participants may adopt another alternative netting scheme incorporating modifications of the conditions described in Section IV.1(3) to (5), based on their mutual agreement, on condition that priority is given to use of the pairing off procedure in bilateral payments netting under the standard netting scheme[8].

When using this alternative scheme, the conditions described in (6) to (10) of Section IV.1 shall be fulfilled in the same way as required under the standard netting scheme, with a view to ensuring settlement efficiency.

(4) The validity of the alternative netting schemes specified in these Guidelines has been confirmed, as is the case with the standard netting scheme.

3. Operational procedures in netting

(1) Instructions for pairing and sorting

Given that the market participants concerned have mutually agreed to adopt the

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[8] For example, market participants may apply netting to pair-offs in FOP settlements, as well as in unsecured securities lending transactions etc.

netting scheme, paring off or pairing and sorting for bilateral payments netting between different face values may be processed, without being required to give notice in each instance.

(2) Trade matching notice for netting

Each of the delivering participant and the receiving participant shall issue a matching notice listing the transactions to be netted under their predetermined netting scheme and both participants shall mutually send the notice to the other participant by 4:00 p.m. on the business day immediately preceding the delivery date. The form of matching notice is as specified in the Practical Guidelines for Trade Matching for Bilateral Netting.

(3) Deadline for trade matching

Trade matching for netting shall be completed by 5:00 p.m. on the business day immediately preceding the delivery date.

(4) How to send trade matching notices

The method to be adopted based on both participants' agreement is used[9].

(5) Principle of cross-checking trade matching notices

Trade matching notices shall be cross-checked by both participants.

(6) Objection notice

If either participant has any objection to the trading matching notice received from the other participant, both participants shall complete their trade matching by 5:00 p.m. on the business day immediately preceding the delivery date by sending a corrected trade matching notice.

(7) Sections in charge of trade matching

As a general rule, this work is to be done by back-office sections. However, market participants may appoint other sections to control trade matching procedures based on individual circumstances.

4. Prior confirmation, prior notice, and their relation with the trade matching notice

Market participants may exchange prior confirmations (referred to the attached "Model Form 1") and prior notices (referred to the attached "Model Form 2") at their option. Using these documents, market participants can easily confirm the details of agreements, account numbers for funds settlements, and/or names of person in charge of operational procedures in the standard netting or alternative netting schemes.

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9 Examples of specific sending methods are given in the Practical Guidelines for Trade Matching for Bilateral Netting.

Market participants shall note the following points in the case of exchanging prior confirmations and/or prior notices:

(1) Market participants shall send prior confirmations and/or prior notices to each other, and shall mutually confirm these contents again if they detect discrepancies in them.

(2) Since each prior confirmation, prior notice or trade matching notice states that "Netting is based on 'IV. Guidelines concerning bilateral netting' of The Japanese Government Securities Guidelines for Real Time Gross Settlement of JSDA," market participants can easily confirm that both participants have agreed to adopt the standard and/or alternative netting schemes, regardless of which format is used.

If trade matching notice is sent electronically, it may be difficult in practical operations to declare in the notice that netting is based on "IV. Guidelines concerning bilateral netting" of The Japanese Government Securities Guidelines for Real Time Gross Settlement" of JSDA; it is therefore determined appropriate that the market participants concerned make it a practice to exchange prior confirmation and prior notice in advance wherein the method of sending trade matching notice and both participants' adherence to these Guidelines are confirmed. In addition, because of the difficulty of affixing signatures or seal impressions on trade matching notices due to the administrative process involved, it is recommended that market participants wishing to reach prior agreement based on signatures or seal impressions exchange prior confirmations and/or prior notices.

(3) When market participants have exchanged prior confirmations and/or prior notices, there may be cases where discrepancies arise between the details of these documents and those of trade matching notices. In such cases, trade matching notices confirmed between the participants will take precedence. If the participants cannot reach agreement on the details of trade matching notices, they shall proceed based on the details of prior confirmations.

5. Netting other than "bilateral payments netting"

In some cases, market participants may agree to perform netting under a non-standard netting scheme other than the standard netting scheme or alternative standard netting scheme specified in these Guidelines[10] when such non-standard scheme is expected to

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[10] For example, one conceivable method is obligations netting; in the case where multiple receivables and payables may arise between the participants that are supposed to be performed on the same day, whenever a new receivable is created, it is immediately offset against then outstanding payables without awaiting the payment due date; in this way, a net amount finally payable and receivable between the participants on the payment due date is calculated by offsetting and consolidating all outstanding obligations due on the same day.

reduce settlement volumes and thus contribute to enhancing back-office efficiency and mitigating the burden of providing funds. If market participants intend to introduce any non-standard netting scheme, the points listed below must be noted.

(1) When market participants execute netting, they shall assume that there will be Fails or funds transfer incompletion in the settlement of balances outstanding for government securities or funds. Therefore, market participants shall consider not only practical ways of determining which transactions are remaining unsettled in these situations, but also measures for dealing with them.

(2) When market participants are making an agreement on a netting scheme, they shall consider not only operational efficiency but also settlement risk reduction, which is one of the main purposes for introducing RTGS.

(3) In the case of execution of netting other than "bilateral payments netting", market participants shall confirm the legal validity in the agreed-upon netting scheme. "Bilateral payments netting" other than pair-offs, i.e. netting for government securities with different face values, are as valid under Japanese law as the standard netting scheme.

(Supplementary Provisions)
Establishment of the Guidelines: August 29, 2000.
Enforcement of the Guidelines: January 4, 2001.
Enforcement of the 1st Amendment: June 10, 2002.
Enforcement of the 2nd Amendment: January 19, 2004.
Enforcement of the 3rd Amendment: November 1, 2010.
Enforcement of the 4th Amendment: April 23, 2012.
Enforcement of the 5th Amendment: October 13, 2015

(Model Form 1)

(Model form of "Prior confirmation for Japanese Government Securities netting")

Date of Notice:[ ]

To:[ ]

Name of company:

Department:

Contact person:

(person in charge) [Seal]

Contact number:

Prior confirmation for Japanese Government Securities netting

We hereby give a prior confirmation to your company based on "Ⅳ.Guidelines concerning bilateral netting" in "The Japanese Government Securities Guidelines for Real Time Gross Settlement" of Japan Securities Dealers Association, confirming the following items for Japanese Government Securities netting agreed upon between two companies.

Description

1. Outlines of netting

Method of netting	Netting based on standard netting scheme and operational procedures defined in the Guidelines Section Ⅳ.1		
	Bilateral payments netting between different face values based on the standard netting scheme defined in paragraphs (1) and (2) of Section IV.2	One-to-one netting between different face values	
		Consolidated netting between different face values	
	Alternative netting based on the standard netting scheme defined in paragraph (3) of Section IV.2		

2. Items required to confirm in alternative netting based on the standard netting scheme defined in paragraph (3) of Section IV.2 (Following items may be left in blank in case of the other nettings)

Settlement type	A set of DVP settlements	
	A set of FOP settlements	
	A set of DVP settlements, a set of FOP settlements, and the relation among these settlements	
Transaction types	A set of purchase and sale transactions (including conditional purchase and sale transactions), securities lending transactions in contrary form with cash collateral, and the relation among these transactions	
	A set of purchase and sale transactions (including conditional purchase and sale transactions)	
	Securities lending transactions in contrary form with cash collateral	
	Others (for example: between uncollateralized securities lending transactions)	
Specification of original transactions applicable to netting	Transactions that their trade-matching shall be completed by the deadline for trade-matching(from 3:30pm to 3:45pm)on the business day immediately preceding the delivery date for those contracts	
	Transactions that their trade-matching shall be completed by xx O'clock of the xxth business day before the settlement Details of modification are as follows; (Example: Deadline for cancellation of netting, deadline for comparison, and deadline for objection)	

3. Transaction account applicable to netting

	All transaction accounts of our company shall be applied to netting due to the above items unless it is separately designated by our company.
	Transaction accounts applicable to netting are as follows;

4. How to send trade-matching notices

5. Other remarks (Column for supplementation and postscript)

(e.g. Request related to data for trade-matching notices)

（Model　Form 2）

(Model Form of "Prior notice and modification notice for Japanese Government Securities netting")

Date of Notice: [　　　　　　]

To:[　　　　　]

Name of company:

Department:

Contact person:

(person in charge)　　　　　[Seal]

Contact number:

Prior notice and modification notice for Japanese Government Securities netting

We hereby give a notice to your company in advance based on "Ⅳ.Guidelines concerning bilateral netting" in "The Japanese Government Securities Guidelines for Real Time Gross Settlement" of Japan Securities Dealers Association, confirming the following items (newly/alterably) for Japanese Government Securities netting agreed upon between two companies.

Description

1. Account for funds settlement

Current account at the BOJ		
1	Name of Company/ Financial Institution	
2	Account name	
3	Account number	

2. Person in charge, Contact person, and Contact telephone number etc.

1	Department	
2	Person in charge	
3	Contact person	
4	Contact telephone number (1)	
5	Contact fax number (1)	
6	Contact telephone number (2)	
7	Contact fax number (2)	

3. Column for supplementation

This column can be used at option.

<Example for filling out the form>Market participants should use their current account at the BOJ in principle, and can use this column to confirm the account when they use an account of financial institution. In case data is sent electronically by using Web services etc., market participants should use this column for necessary information.