Guidelines on Borrowing and Lending Transactions of Share Certificates, etc.

September 29, 2017

Japan Securities Dealers Association

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I. Outline
1. Purpose

In order to strengthen the competitiveness of Japan's financial and capital markets, it is necessary to, among other things, further improve the usability of securities settlement systems and strengthen risk management. Recognizing this, the settlement cycle of stocks, etc. (hereinafter referred to as "implementing T + 2") is scheduled to take place early in the year 2019.

The "Working Group on Shortening Stock Settlement Cycle" has discussed the standardization and acceleration of processing related to Borrowing and Lending Transactions of Share Certificates, etc. as a task for implementing T + 2. Based on the result of the discussions, the Japan Securities Dealers Association (hereinafter referred to as "JSDA") has decided to compile these "Guidelines on Borrowing and Lending of Share Certificates, etc." (hereinafter referred to as the "Guidelines") and disseminate them to market participants. As many market participants refer to the Guidelines, the aim is that the Borrowing and Lending of Share Certificates, etc. will be carried out more smoothly.

The Guidelines do not inhibit, in any way whatsoever, the rights of market participants as guaranteed by law.

2. Scope

The Guidelines cover all of the Borrowing and Lending Transactions of Share Certificates, etc. regardless of the settlement method (DVP[1] or FOP[2]).

It should be noted that the users of the Pre-Settlement Matching System of the Japan Securities Depository Center, Inc. (hereinafter referred to as "JASDEC") must carry out their activities subject to the Pre-Settlement Matching System's User Manual (Supplementary Volume: Market Rules Edition (Domestic Trading)) and the stock lending DVP participants of JASDEC DVP Clearing Corporation (hereinafter referred to as "JDCC") must carry out their activities subject to the General Transfer DVP Operation Manual (version for DVP Participant) in compliance with the Manuals respectively in addition to these Guidelines.

3. Eligible share certificates, etc.

The term "Share Certificates, etc." as used in the Guidelines includes share certificates, preferred equity securities (meaning preferred equity securities issued by cooperative financial institutions), investment trust beneficiary securities (meaning beneficiary securities prescribed in the Act on Investment Trusts and Investment Corporations) newly listed or already listed on domestic financial instruments exchange markets, and investment securities (meaning investment securities prescribed in the same Act).

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[1] Delivery Versus Payment (DVP): A settlement method in which the delivery of securities and the payment of money are mutually conditional and neither delivery nor payment is made unless both are made at the same time.

[2] Free Of Payment (FOP): A settlement method in which the delivery of securities and payment of money are made separately.

II. Contract and Contract Reconciliation

1. Contract cut-off times, etc.[3]

Market participants should conclude the contract and reconciliation of Borrowing and Lending Transactions of Share Certificates, etc. by the times specified in the table below, where "T" denotes the transaction contract date.

Settlement cycle	Contract cut-off time
T + 2 or longer	17:00 on T
T + 1	*[1]
T + 0	13:00 on T

In addition, the above does not preclude setting the contract cut-off time through agreement between both contracting parties, including the Borrowing and Lending Transaction for additional Book-Entry Transfer etc. due to a delivery failure occurring on the record date for right allotment.

*[1] *Taking into account the completion time of collateral reconciliation (in the case of the stock lending DVP, the time until the data of the required collateral money and the data of the adjusted amount of money are matched and approved), contract cut-off times for T + 1 settlement shall be set by agreement of both contracting parties. Market participants shall secure sufficient contract times by following the measures below, aiming to prevent the occurrence of Market Fails.*
- *From the perspective of securing the liquidity of the market and ensuring trading opportunities, market participants shall endeavor to respond to the transaction contract for T + 1 settlement as much as possible even after the conclusion of the transaction on the exchange.*
- *Market participants shall maintain a structure that enables them to accurately and promptly complete each of the following processes after the conclusion of the transaction contract: sending the data of contract reconciliation, sending the data of the required collateral money, and sending the data of the adjusted amount of money.*

2. Contract and contract reconciliation

Market participants shall promptly perform contract reconciliation of new transactions (start) and return transactions (end) on an individual basis using means such as JASDEC's Pre-Settlement Matching System or e-mail, etc. after the conclusion of the transaction contract.

(1) Necessary items for contract reconciliation[4]
    a) Issue name (securities code)
    b) Borrowing and Lending volume
    c) Lender (Fund No.)
    d) Borrower
    e) Settlement date (transaction settlement date of start transaction and that of end transaction)
    f) Borrowing and Lending Period
    g) Borrowing and Lending Fee Rate

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[3] All days in "II. Contract and Contract Reconciliation" refer to business days.
[4] When the Pre-Settlement Matching System of JASDEC is used, reconciliation is performed subject to JASDEC's "Connection Specification for Pre-Settlement Matching System (various)."

(2) Borrowing and Lending Period for new transactions with T + 0 settlement[5]

Market participants shall conclude all contracts open-ended without setting a Borrowing and Lending Period for new transactions with T + 0 settlement that aim to avoid the occurrence of Fails (hereinafter referred to as "Fail Cover"), in order to promptly complete the contract reconciliation. Also, at the time of the conclusion of the transaction, in the case where the planned return date is agreed upon, the contracting parties shall promptly execute the return transaction and conduct contract reconciliation. However, this does not preclude cases where the contracting parties agree for the conclusion of the contract for a new transaction with T + 0 settlement to be closed-ended.

It should be noted that this does not apply to transactions for which the objective is not Fail Cover.

(3) Notification of Individual Borrowing and Lending Transaction subject to return[6]

When contracting a return transaction, the borrower shall inform the lender of the Individual Borrowing and Lending Transaction that is subject to return using the "Reconciliation Form for Return Transactions" (Annex 1) by the cut-off time for sending the contract reconciliation data.

The items in the "Reconciliation Form for Return Transactions" are as follows.
   a) Counterparty code (*)
   b) Issue name (securities code)
   c) Volume of return
   d) Outstanding amount of Borrowing and Lending with passed delivery dates or outstanding amount of Borrowing and Lending already contracted (including delivery dates not yet due)[7]
   e) Borrowing and Lending Fee Rate
   f) Contract date of return transaction
   g) Settlement date for return transaction
   h) Settlement date for start transaction
   i) Transaction code (*)[8]
   j) Fund No. (*)
   k) Sender code (*)

(*) These are optional items that define the details of the data sent between the transacting parties.

(4) Prioritizing between Individual Borrowing and Lending Transactions subject to return in partial repayment

For issues with multiple Individual Borrowing and Lending Transactions (the same issue transacted under different conditions), returns shall be made in the order of priority outlined below:
   1. Individual Borrowing and Lending Transactions with higher Borrowing and Lending Fee Rates
   2. (When 1 above is the same) Individual Borrowing and Lending Transactions with an older settlement date of start transactions

However, this shall not apply to cases where one of the contracting parties designates the Individual Borrowing and Lending Transaction subject to return at the time of the contract.

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[5] Same treatment as 4.8 in JASDEC's Pre-Settlement Matching System User Manual (Supplementary Volume: Market Rules Edition (Domestic Trading)).

[6] "Individual Borrowing and Lending Transaction" refers to each Borrowing and Lending Transaction on the "Individual Transaction Statement."

[7] This refers to the current outstanding amount at the contract date of the return transaction of the corresponding Individual Borrowing and Lending Transaction.

[8] This indicates the serial number, etc. in computer systems used by each market participant.

(5) Contract reconciliation for rate change/lender change[9]
   In cases where return transactions of existing Borrowing and Lending Transactions and new transactions are contracted at the same time due to rate change (change in the Borrowing and Lending Fee Rate) or lender change (change in the lender), and book-entry transfer is netted and omitted, market participants shall reconcile the contracts after specifying them as contracts of rate change or lender change.[10]

III. Collateral Money

1. Calculation method for the amount of collateral money

(1) Calculation of the amount of collateral money per Individual Borrowing and Lending Transaction[11]
   The amount of collateral money is calculated with the following formula for each Individual Borrowing and Lending Transaction, and is rounded off to the nearest decimal for each Individual Borrowing and Lending Transaction.
   - Amount of Collateral Money = Market Capitalization × Collateral Rate
   - Market Capitalization = Volume of Borrowing and Lending Transaction × Market Price of Share Certificates, etc. subject to the transaction

(2) Market price of share certificates, etc. subject to borrowing and lending
   The market price used in III. 1. (1) shall be as follows.

Transaction delivery date	Settlement cycle	New/ Return transaction	Market price adoption date	Types of market price
Transactions with passed delivery date (Outstanding amount)	-	-	Two business days before[12] the receipt/payment date[13]	JASDEC Market Price [14]
Transactions with delivery dates not yet due	T + 1 or longer	New transactions		
		Return transactions		
	T + 0	New transactions	One business day before the receipt/payment date	
		Return transactions	Two business days before the receipt/payment date	

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[9] Same treatment as 4.5 in JASDEC's Pre-Settlement Matching System User Operational Manual (Separate Volume: Market Rules Edition (Domestic Transactions)).

[10] For instance, where funds subject to transaction are changed in the transaction with trust banks.

[11] Exclusive contracts shall be treated in the same way.

[12] In T + 1 settlement, when the contract reconciliation is conducted on or after the business day following the contract date, the amount of collateral money is calculated according to the market price of the day prior to the receipt/payment date.

[13] This indicates the receipt/payment date of collateral money (including collateral securities), and does not indicate the delivery date of Borrowing and Lending Transactions.

[14] The JASDEC Market Price indicates the market price adopted in the "Automated Calculation Function for Settlement Price" under the Stock Lending DVP at JDCC. In addition, the Function decides the market price at the time of reconciliation matching—therefore, "T + 1 or longer" in the box above indicates the cases where reconciliation is matched by 22:00 of the day prior to the delivery date and "T + 0" indicates the cases where reconciliation is matched on and after 7:00 of the delivery date.

2. Reconciliation and receipt/payment of collateral money [15]

(1) Receipt/payment and reconciliation of the amount of collateral money, etc. to be received and paid on the next business day

Market participants shall reconcile the amount of collateral money, etc. to be paid and received on the next business day on each business day during the period of the Borrowing and Lending Transaction as follows. Based on the results of the reconciliation of the amount of collateral, the transacting parties will receive and pay the collateral money on the next business day.

① Total Amount Input Method[16] (DVP Total Amount Input Method, FOP Method)
(a) Borrowing and Lending Transactions with passed delivery dates (outstanding amount) and Borrowing and Lending Transactions contracted before the cut-off time for T + 1 settlement transaction with delivery dates due the next business day

Notify the other side of the necessary data for the reconciliation of the amount of collateral money for the receipt and payment made the following business day via the Pre-Settlement Matching System of JASDEC or e-mail, etc. (for instance, the amount of collateral money received and paid on the next business day etc.) promptly after the completion of the contract of the T + 1 settlement transaction on the business day before the receipt/payment date and reconcile them.

(b) Borrowing and Lending Transactions contracted after the cut-off time for T + 1 settlement transaction with delivery dates due the next business day

Notify the other side the data of collateral money for each transaction via the aforementioned Pre-Settlement Matching System or by e-mail, etc., and promptly reconcile them.

② Net Amount Input Method (DVP Net Amount Input Method)[17]
(a) Transactions with passed delivery dates (outstanding amount)

Notify the other side of the data of shortages or surpluses in the amount of collateral money received/paid the next business day via the Pre-Settlement Matching System of JASDEC by 16:00, and promptly reconcile them.

(b) Borrowing and Lending Transactions with delivery dates due the next business day

Notify the other side of the data of the amount of collateral money for each transaction via the Pre-Settlement Matching System of JASDEC, and promptly reconcile them.

(2) Receipt/payment and reconciliation of the amount of collateral money, etc. to be received and paid on the same business day

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[15] Same treatment as 4.11 in JASDEC's Pre-Settlement Matching System User Operational Manual (Separate Volume: Market Rules Edition (Domestic Transactions)).
[16] This refers to the Total Input Method stipulated in the JDCC "DVP Settlement Services for Non-Exchange Transaction Deliveries (NETDs) User Operational Manual (DVP Participants Edition)".
[17] This refers to the Net Amount Input Method stipulated in JDCC "DVP Settlement Services for Non-Exchange Transaction Deliveries (NETDs) User Operational Manual (DVP Participants Edition)".

Market participants, when contracting a T + 0 settlement transaction, shall notify the counterparty of the data of the amount of collateral money for each such transaction using the Pre-Settlement Matching System of JASDEC or e-mail, etc. and promptly reconcile them. Based on the results of the reconciliation of the amount of the collateral money, the receipt/payment of the collateral money will be conducted between the transacting parties during the day.

IV. Borrowing and Lending Fee and Interest Rate Imposed on Collateral Money

1. Calculation method for the Borrowing and Lending Fee[18]

    (1) Calculation method for the Borrowing and Lending Fee on each day for each Individual Borrowing and Lending Transaction

The Borrowing and Lending Fee on each day for each Individual Borrowing and Lending Transaction is calculated by adding the market capitalization (calculated by multiplying volume of borrowing and lending by the market price of share certificates, etc.) of each day over the Borrowing and Lending Period (excluding the settlement date for return transactions and including the settlement date for new transactions) per each Individual Borrowing and Lending Transaction, multiplying this by the Borrowing and Lending Fee Rate and dividing it by 365 (rounded to the second decimal place).

- Borrowing and Lending Fee on Each Day for Each Individual Borrowing and Lending Transaction = Market Capitalization for Each Day × Borrowing and Lending Fee Rate × $\frac{1}{365}$ (rounded off to the second decimal place)

    (2) Calculation method for the monthly total amount of the Borrowing and Lending Fee

The monthly total amount of the Borrowing and Lending Fee is calculated by summing up the Borrowing and Lending Fees on each day across all Individual Borrowing Transactions over a one-month period, from the first calendar day to the last calendar day of the month (including holidays). Decimals are not to be rounded before adding each detailed unit (i.e. each day, issue name, and contract). After the summation, the decimals shall be rounded down.

- Monthly Total Amount of the Borrowing and Lending Fee = $\sum_{First \sim last\ calender\ day\ (of\ month)}$ Borrowing and Lending Fees per day for all Individual Borrowing Transactions (rounded off to the nearest decimal place after summation)

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[18] Excluding the Exclusive fee on Exclusive contracts

(3) Market price of share certificates etc. subject to borrowing and lending
    In the calculation of IV. 1. (1) above, the market price of the share certificates, etc. subject to borrowing and lending shall in the case of business days be the "JASDEC Market Price" recorded on the preceding business day, and in the case of non-business days, the "JASDEC Market Price" recorded two business days prior.

Market price used for calculation (example)

Reference date for calculation[19]		Market price adopted
Date	Day of the week	
February 6	Thur.	Market price on February 5
February 7	Fri.	Market price on February 6
February 8	Sat.	Market price on February 6
February 9	Sun.	Market price on February 6
February 10	Mon.	Market price on February 7
February 11	Tue. (Holiday)	Market price on February 7
February 12	Wed.	Market price on February 10
February 13	Thur.	Market price on February 12
February 14	Fri.	Market price on February 13

* The red in the table indicates non-business days.

2. Calculation method for interest imposed on collateral money

(1) Calculation method for the interest imposed on collateral money on each day
    The interest imposed on collateral money on each day is found by multiplying the interest rate imposed on collateral money by the outstanding amount of collateral money for each day during the Borrowing and Lending Period, and then dividing by 365 (rounded to the second decimal place).

- Interest Imposed on Collateral Money on Each Day = Outstanding Amount of Collateral Money per Day $\times$ Interest Rate Imposed on Collateral Money $\times$ $\frac{1}{365}$ (rounded to the second decimal places)

(2) Calculation method for the monthly total amount of interest imposed on collateral money
    The monthly total amount of the interest imposed on collateral money is calculated by summing up the interest imposed on collateral money for each day over a one-month period, from the first calendar day to the last calendar day of the month (including holidays). After the summation, decimals shall be rounded down.

- Monthly Total Amount of the Interest Imposed on Collateral Money = $\sum_{First \sim last\ calender\ day\ (of\ month)}$ Interest Imposed on Collateral Money per Day (rounded down to the nearest decimal place after summation)

(3) Interest rate imposed on collateral money
    The interest rate imposed on collateral money used in IV. 2. (1) above shall be agreed between the transacting parties.

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[19]This refers to each day in the Borrowing and Lending Period in which the Borrowing and Lending Fee has accrued.

3. **Receipt/Payment and Reconciliation of Borrowing and Lending Fee and interest imposed on collateral money**

   Market participants shall reconcile the amount of the Borrowing and Lending Fee to be received/paid, as well as the amount of interest imposed on collateral money to be received/paid, on or before the business day prior to the receipt/payment date as described in IV. 4., through means such as e-mail, etc..

4. **Receipt/payment of Borrowing and Lending Fee and interest imposed on collateral money**

   The receipt/payment date of the Borrowing and Lending Fee calculated through IV. 1. and the interest imposed on collateral money calculated in IV. 2. shall be the 10th day of the month following the month under calculation. When the 10th falls on a non-business day, the payment date shall be the preceding business day.

V. Procedure when Corporate Action is taken

1. Dividends, revenue distributions, and money distributions

When dividends, revenue distributions, and money distributions are generated, the handling of the amount equivalent to dividends, revenue distributions, and money distributions (hereinafter referred to as "Amount equivalent to dividends, etc.") for receipt/payment is as follows.

(1) Calculation method for the amount equivalent to dividends, etc.

① Calculation method for amount equivalent to dividends, etc.
The amount equivalent to dividends, etc. is calculated per Individual Borrowing and Lending Transaction according to the following formula.
- Amount Equivalent to Dividends, etc. = Nominal Amount × Volume of Borrowing and Lending × Equivalent Calculation Ratio
(rounded down to the nearest decimal place)

② Summation method for the amount equivalent to dividends, etc.
The amount received/paid for the amount equivalent to dividends, etc. shall be calculated by summing up the amount equivalent to dividends, etc. to be received and to be paid between the transacting parties.

(2) Reconciliation of the amount equivalent to dividends, etc.

The lender shall, for every payment date, create a "Reconciliation Form for Amount Equivalent to Dividends, etc." (Annex 2) and send it to the borrower by three business days prior to the payment date described in V. 1. (3) below. After reconciliation, he borrower should contact the lender by two business days prior to the dividend payment date.

The items in the "Reconciliation Form for Amount Equivalent to Dividends, etc." are as follows.

    a) Payment date
    b) Record date
    c) Fund No. (*)
    d) Counterparty code (*)
    e) Issue name (securities code)
    f) Borrowing and Lending volume
    g) Dividend unit price
    h) Amount equivalent to dividends
    i) Equivalent calculation ratio
    j) Sender code (*)

(*) These are optional items that define the details of the data sent between the transacting parties.

(3) Payment of the amount equivalent to dividends, etc.

The borrower shall pay the amount equivalent to dividends, etc. to the lender at the payment date of the dividends, revenue distributions, or money distributions.

2. Corporate Action that changes the details of Borrowing and Lending Transactions

(1) Outstanding the amount of Borrowing and Lending

① Handling outstanding amount of Borrowing and Lending
When the details of the Borrowing and Lending are changed by corporate action, market participants shall confirm the details of the Borrowing and Lending Transactions after the corporate action among the transacting parties without using the settlement matching systems. For concrete examples, see "Handling Outstanding Amount of Borrowing and Lending when Corporate Action is taken"(Annex 3).[20]

i.   Stock split, allotment of shares without contribution
The number of new stocks to be allocated through split/allotment of shares without contribution shall be added to the volume of the outstanding amount in the Borrowing and Lending Transaction of the relevant issue.
The details related to the outstanding amount of new stocks are to be handled as new details separate from the existing details of outstanding amounts, and the settlement date will be the date the split or the allotment of shares without contribution is made effective.

ii. Stock consolidation
The volume of the outstanding amount of Borrowing and Lending for the relevant issue shall be decreased to the volume of post-stock consolidation.
The settlement date for the outstanding amount after the decrease shall be the date the stock consolidation is made effective.

iii. Merger, stock transfer, stock swap
The issues and volume of Borrowing and Lending Transactions prior to mergers, stock transfers, and stock swaps will, ex post, be handled with their corresponding post-merger/stock transfers/stock swap figure. The settlement date for the new outstanding amount shall be set at the effective date of the merger, stock transfer or stock swap of the issuer.

② Considerations regarding volume of trading unit
In the event corporate action is taken, the volume of new outstanding amounts for Borrowing and Lending Transactions may not be an integer multiple of the trading unit of the exchange, or perhaps may not reach one trading unit (one round-lot) or one share. In such cases, market participants shall handle it via one of the following methods.

i.   Perform partial repayment etc. to the lender and adjust the volume of the outstanding amount before the effective date of the corporate action so that the outstanding amount after the corporate action becomes an integer multiple of the trading unit of the exchange.

ii. Repay to the lender in the form of money the outstanding amounts that are less than the trading unit or the outstanding amounts that are fractions constituting less than one share.

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[20] The reconciliation method using the Pre-Settlement Matching system is defined in 4.9 in JASDEC's Pre-Settlement Matching System User Manual (Supplementary Volume: Market Rules Edition (Domestic Trading)); however, trade parties shall confirm the Individual Borrowing and Lending Transaction without using the Pre-Settlement Matching system after corporate action is taken.

(2) Calculation method for collateral money

In the event that corporate action occurs on the loaned issue, the market participants shall calculate the amount of collateral money as follows (For a concrete example, see "Calculation Method for Collateral Money when Corporate Action is taken" (Annex 4)).

① Calculate the amount of collateral money for T + 0 settlement transaction with the receipt/payment date as the record date (the day before the effective date)

i. Stock split and allotment of shares without contribution

The amount of collateral money for new transactions of T + 0 settlement with the receipt/payment date as the record date (the day before the effective date) shall be calculated so as to yield the following calculation result.[21]

● Collateral money of new transaction of T + 0 settlement with the receipt/payment date as the record date (the day preceding the effective date)
= Volume of Borrowing and Lending × Market price of the day preceding the record date (ex-rights date) × Interest rate imposed on collateral money × Ratio of split or allotment of shares without contribution
(rounded down to the nearest decimal place)

ii. Stock consolidation

The amount of collateral money for new transactions of T + 0 settlement with the receipt/payment date as the record date (the day before the effective date) shall be calculated so as to yield the following calculation result.[22]

● Collateral money of new transaction of T + 0 settlement with the receipt/payment date as the record date (the day preceding the effective date)
= Volume of Borrowing and Lending × Market price of the day preceding the record date (ex-rights date) × Interest rate imposed on collateral money × Stock consolidation ratio
(rounded down to the nearest decimal place)

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[21] In the DVP Net Amount Input Method, when T + 0 settlement on the record date occurs, the amount of collateral money which should be exchanged does not match exactly with the amount of collateral money at the time of settlement reconciliation calculated by the Pre-Settlement Matching system due to the specifications of the Pre-Settlement Matching system.

Example: In the case where there are two stocks, a stock-split ratio of 1:2, an ex-rights market price of 36.5 yen, and ratio of collateral of 1.05

(a) the amount of collateral money to be exchanged: 2 stocks × 36.5 yen × 2 (adjustment ratio) × 1.05 = 153 (rounded off to the nearest decimal place)

(b) the amount of collateral money at the time of settlement reconciliation calculated by the Pre-Settlement Matching system: 2 stocks × 36.5 yen × 1.05 = 76 (rounded off to the nearest decimal place)

In this case, the difference between (b) and (a) (153yen – 76 yen = 77 yen) should be reconciled and exchanged

[22] The same situation as that of footnote 21 will occur in this case. See above for details.

② Calculate the amount of collateral money with the receipt/payment date as the effective date

i. Merger, stock transfer, stock swap

    a. The amount of collateral money for the record day for transactions with reception/payment date as the effective date shall be calculated using the market price and the volume of Borrowing and Lending of the final cum-rights day of the old issue.

    b. The amount of collateral money for the effective date for new transactions of T + 0 settlement with the receipt/payment date as the effective date shall be calculated using the market price and volume after the merger, stock transfer or stock swap (for new listings, the "base price")[23].

(3) Calculation method for the Borrowing and Lending Fee

When corporate action is taken for the loaned issue, market participants shall calculate the Borrowing and Lending Fee as described below (For specific examples, see "Calculation Method for Borrowing and Lending Fee when Corporate Action is taken" (Annex 5).

① Split and allotment of shares without contribution

The Borrowing and Lending Fee on the record date (the day before the effective date) is calculated so as to yield the following calculation result.

● Borrowing and Lending Fee on the record date (day preceding the effective date) = Volume of Borrowing and Lending × Market price of the day preceding the record date (ex-rights date) × Borrowing and Lending Fee Rate × $\frac{1}{365}$ × Ratio of stock split or allotment of shares without contribution (rounded to the second decimal places)

② Stock consolidation

The Borrowing and Lending Fee on the record date (the day before the effective date) is calculated so as to yield the following calculation result.

● Borrowing and Lending Fee on the record date (the day before the effective date) = Volume of Borrowing and Lending × Market price of the day preceding the record date (ex-rights date) × Borrowing and Lending Fee Rate × $\frac{1}{365}$ × Stock consolidation ratio (rounded to the second decimal places)

③ Merger, stock transfer, stock swap

i. The Borrowing and Lending Fee on the record date (the day before the effective date) is calculated using the closing price of the exchange on the last trading day of the old issue.

ii. The Borrowing and Lending Fee on the effective date is calculated using the market price of the new stocks after the merger, stock transfer and stock swap (for new listings, the "base price").[24]

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[23] The "base price", which is calculated on the business day prior to the effective date of share certificates after a merger, stock transfer or share exchange, is available as a CSV file via the consolidated web terminal of the Account Transfer System for Stocks, etc. from 7am of the effective date.

[24] The "base price", which is calculated on the business day prior to the effective date of share certificates after a merger, stock transfer or share exchange, is available as a CSV file via the consolidated web terminal of the Account Transfer System for Stocks, etc. from 7am of the effective date.

3. Other corporate actions

(1) Voting rights and shareholder incentives
    With respect to voting rights and shareholder incentives (corporate gifts), unless there is a particular agreement, exchange of money or other adjustments between the transacting parties is unnecessary.

(2) Others
    Regarding the handling of other corporate actions, it is possible to negotiate between transaction parties every time they occur.

VI. Facilitation of Settlement, etc.

In order to reduce the settlement risk of the market and to ensure the smoothness of settlement, the following points concerning settlement, etc. of Borrowing and Lending Transactions of share certificates, etc. should be considered.

(1) Promotion of use of DVP settlement in stock lending transactions
    It is desirable for market participants who do not use stock lending DVP settlement to use it to reduce settlement risk and administrative burden.

(2) Active use of DVP settlement in stock lending transactions
    Since FOP settlement has higher settlement risk than stock lending DVP settlement, control of FOP settlement poses a considerable burden. Therefore, for market participants capable of utilizing stock lending DVP settlement, it is desirable to use stock lending DVP settlement as much as possible.

(3) Point to note for contract reconciliation and reconciliation of collateral money
    In cases where contract reconciliation and collateral value reconciliation do not match, market participants will promptly pursue the cause of the inconsistency and carry out the correction process based on the confirmed cause.
    In addition, it is desirable for market participants to strengthen their in-house structure and review their in-house systems, as appropriate, in order to notify the correct details of contract reconciliation, and to avoid erroneous cancellation of data after contract reconciliation matching, etc.

(4) Point to note for balance reconciliation
    It is recommended that steps be taken to reduce the administrative burden for reconciliation related to outstanding amounts, etc., such as, in cases where the counterparty is a professional investor, sending the balance via electronic means rather than in writing, etc. or omitting it entirely with the transacting party's agreement.

Annex 1: Reconciliation Form for Return Transactions

Counterparty code*	Issue name (securities code)	Volume of return	Outstanding amount of Borrowing and Lending (passed delivery dates)	Outstanding amount of Borrowing and Lending already contracted (incl. delivery dates not yet due)	Borrowing and Lending Fee Rate	Contract date for return transaction	Settlement date for return transaction	Settlement date for start transaction	Transaction code*	Fund No.*	Sender code*
12428	0000	100	1000	800	4.00	2019/4/1	2019/4/3	2019/3/31	XXXXXXX		12400
12428	1111	2000	0	-	6.00	2019/4/1	2019/4/3	2019/4/2	YYYYYYY		12400

Item Descriptions
1. Counterparty code: code to identify the recipient partner company
2. Outstanding amount of Borrowing and Lending (passed delivery dates): the current outstanding amount of the Individual Borrowing and Lending Transaction at the contract date for the return transaction
3. Outstanding amount of Borrowing and Lending already contracted (incl. delivery dates not yet due): the current outstanding amount of the Individual Borrowing and Lending Transaction at the contract date for the return transaction (including delivery dates that have not yet passed) (remaining)
    a. Either 2 or 3 must be provided. Entering both is also allowed.
4. Settlement date for start transaction: the delivery date for new Borrowing and Lending Transactions
5. Transaction code: optional, code to identify the outstanding amount of Borrowing and Lending (after confirmation with the other party)
6. Fund No.: provided when there are communications with a trust bank; optional in other instances
7. Sender code: code to identify the sender

* These are optional items that define the details of the data sent between the transacting parties.

Annex 2: Reconciliation Form for Amount Equivalent to Dividends, etc.

Payment date	Record date	Fund No.*	Counterparty code*	Securities code	Issue name	Borrowing and Lending volume	Dividend unit price	Amount equivalent to dividends, etc.	Equivalent calculation ratio (%)	Sender code*
2019/7/3	2019/4/28	xxxx		1234	○○	1000	8	8,000	100	
2019/7/3	2019/4/28	xxxx		1234	○○	400	10	4,000	100	
2019/7/3	2019/4/28	xxxx		5678	△△	200	10	1,800	90	
2019/7/3	2019/4/28	xxxx		5678	△△	100	100	9,000	90	
							Total	22,800		

Item Descriptions
1. Counterparty code: code to identify the recipient partner company
2. Fund No.: provided when there are communications with a trust bank; optional in other instances
3. Sender code: code to identify the sender

* These are optional items that define the details of the data sent between the transacting parties.

Annex 3: Handling Outstanding Amount of Borrowing and Lending when Corporate Action is taken

Type of corporate action	Example	Amount of Borrowing and Lending Transaction before Corporate Action				Amount of Borrowing and Lending Transaction After Corporate Action[25]			
		Issue name	Borrowing and Lending Fee Rate	Number of shares	Settlement date	Issue name	Borrowing and Lending Fee Rate	Number of shares	Settlement date
Stock split	Split ratio 1:2 (with Individual Borrowing and Lending Transactions with different Borrowing and Lending Fee Rates)	A	2.0	1,000 shares	2018/10/1	A	2.0	1,000 shares	2018/10/1
		A	3.0	500 shares	2018/12/1	A	3.0	500 shares	2018/12/1
		-	-	-	-	A	2.0	1,000 shares	2019/4/1
		-	-	-	-	A	3.0	500 shares	2019/4/1
Stock consolidation	Consolidation ratio 2:1	A	2.0	1,000 shares	2018/10/1	A	2.0	500 shares	2019/4/1
Stock transfer	1:1 transfer	A	2.0	1,000 shares	2018/10/1	B	2.0	1,000 shares	2019/4/1

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[25] The effective dates of the corporate actions in this table are all set to be April 1, 2019.

Annex 4: Calculation Method for Collateral Money when Corporate Action is taken

(1) Stock split and allotment of shares without contribution: Issue A, ratio 1:3 (collateral rate is assumed to be 100%)

Receipt/payment date of collateral money		March 29	March 30	March 31	April 1
Issue A		Last day cum-rights	Ex-rights day	Record date	Effective date
	Closing price on exchange	100.00 yen	33.00 yen	31.00 yen	32.00 yen
T + 0 settlement transaction (New transaction)	Calculation date of collateral money	March 29	March 30	March 31	April 1
	Calculation of collateral money	[No adjustment required] Volume of Borrowing and Lending for T + 0 transaction × closing price on previous day (March 28) × 100%	[No adjustment required] Volume of Borrowing and Lending for T + 0 transaction × closing price on previous day (100.00 yen) × 100%	[Adjustment required]²⁶ Volume of Borrowing Lending for T + 0 transaction × closing price on previous day (33.00 yen) × 100% × 1/3	[No adjustment required] Volume of Borrowing Lending for T + 0 transaction × closing price on previous day (31.00 yen) × 100%

(2) Stock consolidation: Issue B, ratio 3:1 (collateral rate is assumed to be 100%)

Receipt/payment date of collateral money		March 29	March 30	March 31	April 1
Issue B		Last day cum-rights	Ex-rights day	Record date	Effective date
	Closing price on exchange	100.00 yen	301.00 yen	302.00 yen	303.00 yen
T + 0 settlement transaction (New transaction)	Calculation date of collateral money	March 29	March 30	March 31	April 1
	Calculation of collateral money	[No adjustment required] Volume of Borrowing and Lending for T + 0 transaction × closing price on previous day (March 28) × 100%	[No adjustment required] Volume of Borrowing and Lending for T + 0 transaction × closing price on previous day (100.00 yen) × 100%	[Adjustment required]²⁷ Volume of Borrowing Lending for T + 0 transaction × closing price on previous day (301.00 yen) × 100%× 1/3	[No adjustment required] Volume of Borrowing Lending for T + 0 transaction × closing price on previous day (302.00 yen) × 100%

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[26] Adjusted in accordance with the ratio of stock split or allotment of shares without contribution

Amount of collateral money of new transactions with T + 0 settlement = Volume of Borrowing and Lending × market price on previous business day × rate of collateral money × ratio of stock split or allotment of shares without contribution (rounded down to the nearest decimal place)

[27] Adjusted in accordance with the ratio of stock consolidation

Amount of collateral money of new transactions with T + 0 settlement = Volume of Borrowing and Lending × market price of previous business day × rate of collateral money × ratio of stock consolidation (rounded down to the nearest decimal place)

(3) Merger, stock transfer, share exchange: Issue C (company to be merged and delisted) and Issue D (already-listed company), ratio 3:1 (collateral rate is assumed to be 100%)

Receipt/payment date of collateral money		March 29	March 30	March 31	April 1	April 2
Issue C (Company to be merged and delisted)		Last day cum-rights	Ex-rights day	Record date	Effective date	Day after effective date
	Closing price on exchange	250.00 yen	None	None	None	None
Issue D (already-listed company)					Effective date	Day after effective date
	Closing price on exchange	747.00 yen	748.00 yen	749.00 yen	750.00 yen	751.00 yen
Issue C → Issue D	Volume of Borrowing and Lending (for passed delivery dates)	Issue C: 15 shares	Issue C: 15 shares	Issue C: 15 shares	Issue D: 5 shares	Issue D: 5 shares
Transactions with passed delivery dates (Outstanding amount)	Calculation date of collateral money	March 28	March 29	March 30	March 31	April 1
	Calculation of collateral money	15 shares of C × closing price of C two business days before the day (closing price on March 27) × 100%	15 shares of C × closing price of C two business days before the day (closing price on March 28) × 100%	15 shares of C × closing price of C two business days before the day (250.00 yen) × 100%	15 shares of C × Final closing price of C (250.00 yen) × 100%	5 shares of D × closing price of D two business days before the day (749.00 yen) × 100%
T + 0 settlement transaction (New transaction)	Calculation date of collateral money	-	-	-	April 1	April 2
	Calculation of collateral money	-	-	-	Volume of Borrowing Lending of D × closing price on previous day (749.00 yen) × 100%	Volume of Borrowing Lending of D × closing price on previous day (750.00 yen) × 100%

(4) Merger, stock transfer, share exchange: Issue E (company to become a wholly-owned subsidiary and delisted) and Issue F (newly-listed company), ratio 3:1 (interest rate imposed on collateral money is assumed to be 100%)

Receipt/payment date of collateral money		March 29	March 30	March 31	April 1	April 2
Issue E (Company to become wholly-owned subsidiary and delisted)		Last day cum-rights	Ex-rights day	Record date	Effective date	Day after effective date
	Closing price on exchange	250.00 yen	None	None	None	None
Issue F (newly-listed company)					Effective date	Day after effective date
	Base price	-	740.00 yen	740.00 yen	-	-
	Closing price on exchange	None	None	None	750.00 yen	751.00 yen
Issue E → Issue F	Volume of Borrowing and Lending (for passed delivery dates)	Issue E: 15 shares	Issue E: 15 shares	Issue E: 15 shares	Issue F: 5 shares	Issue F: 5 shares
Transactions with passed delivery dates (Outstanding amount)	Calculation date of collateral money	March 28	March 29	March 30	March 31	April 1
	Calculation of collateral money	15 shares of E × closing price of E two previous days before the day (closing price on March 27) × 100%	15 shares of E × closing price of E two previous days before the day (closing price on March 28) × 100%	15 shares of E × closing price of E two previous days before the day (250.00 yen) × 100%	15 shares of E × Final closing price of E (250.00 yen) × 100%	5 shares of F × Base price of F (740.00 yen) × 100%[28]
T + 0 settlement transaction (New transaction)	Calculation date of collateral money	-	-	-	-	April 2
	Calculation of collateral money	-	-	-	-	Volume of Borrowing Lending of F × closing price on previous day (750.00 yen) × 100%

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[28] The "base price" used for share certificates newly listed after a merger, stock transfer, or share exchange is available as a CSV file via the consolidated web terminal of the Account Transfer System for Stocks, etc. from 7am of the effective date.

Annex 5: Calculation Method for Borrowing and Lending Fee when Corporate Action is taken

(1) Stock split, allotment of shares without contribution: Issue A, ratio 1:3 (Borrowing and Lending Fee Rate is assumed to be 3%)

Calculation base date		March 29	March 30	March 31	April 1
		Last day cum-rights	Ex-rights day	Record date	Effective date
Issue A	Closing price on exchange	100.00 yen	33.00 yen	31.00 yen	32.00 yen
	Volume of Borrowing and Lending (for passed delivery dates)	10 shares	10 shares	10 shares	30 shares
Borrowing and Lending Fee calculation		[No adjustment required] 10 shares × closing price on previous day (closing price on March 28) × 3% × 1/365	[No adjustment required] 10 shares × closing price on previous day (100.00 yen) × 3% × 1/365	[Adjustment required][29] 10 shares × closing price on previous day (33.00 yen) × 3% × 1/365 × 3	[No adjustment required] 30 shares × closing price on previous day (31.00 yen) × 3% × 1/365

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[29] Adjusted in accordance with the ratio of stock split or allotment of shares without contribution
   Borrowing and Lending Fee on the record date (day preceding the effective date) = market capitalization of previous day × rate of Borrowing and Lending
   Transaction × 1/365 × ratio of stock split or allotment of shares without contribution (rounded to the second decimal place)

(2) Stock consolidation for Issue B, ratio 3:1 (Borrowing and Lending Fee Rate is assumed to be 3%)

Calculation base date		March 29	March 30	March 31	April 1
		Last day cum-rights	Ex-rights day	Record date	Effective date
Issue B	Closing price on exchange	100.00 yen	301.00 yen	302.00 yen	303.00 yen
	Volume of Borrowing and Lending (for passed delivery dates)	15 shares	15 shares	15 shares	5 shares
Borrowing and Lending Fee calculation		[No adjustment required] 15 shares × closing price on previous day (closing price on March 28) × 3% × 1/365	[No adjustment required] 15 shares × closing price on previous day (100.00 yen) × 3% × 1/365	[Adjustment required][30] 15 shares × closing price on previous day (301.00 yen) × 3% × 1/365 × 1/3	[No adjustment required] 5 shares × closing price on previous day (302.00 yen) × 3% × 1/365

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[30] Adjusted in accordance with the ratio of stock consolidation.

Borrowing and Lending Fee on the record date (day preceding the effective date) = market capitalization of previous day × rate of Borrowing and Lending Transaction × 1/365 × ratio of stock consolidation (rounded to the second decimal place)

(3) Merger, stock transfer, share exchange: Issue C (company to be merged and delisted) and Issue D (already-listed company), ratio 3:1 (Borrowing and Lending Fee Rate is assumed to be 3%)

Calculation base date		March 29	March 30	March 31	April 1	April 2
Issue C (Company to be merged and delisted)		Last day cum-rights	Ex-rights day	Record date	Effective date	Day after effective date
	Closing price on exchange	250.00 yen	None	None	None	None
Issue D (already-listed company)					Effective date	Day after effective date
	Closing price on exchange	747.00 yen	748.00 yen	749.00 yen	750.00 yen	751.00 yen
Issue C → Issue D	Volume of Borrowing and Lending (for passed delivery dates)	Issue C: 15 shares	Issue C: 15 shares	Issue C: 15 shares	Issue D: 5 shares	Issue D: 5 shares
Borrowing and Lending Fee calculation		15 shares of C × closing price of C on previous day (closing price on March 28) × 3% × 1/365	15 shares of C × closing price of C on previous day (closing price on March 28) × 3% × 1/365	15 shares of C × Final closing price of C on March 29 (250.00 yen) × 3% × 1/365	5 shares of D × closing price of D on previous day (749.00 yen) ×[31] 3% × 1/365	5 shares of D × closing price of D on previous day (750.00 yen) × 3% × 1/365

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[31] The "Market Price of Share Certificates subject to Borrowing and Lending" shall use JASDEC's market price of newly-issued stocks after merger, stock transfer, or share exchange.

(4) Merger, stock transfer, share exchange: Issue E (company to become a wholly-owned subsidiary and delisted) and Issue F (newly-listed company), ratio 3:1 (Borrowing and Lending Fee Rate is assumed to be 3%)

Calculation base date		March 29	March 30	March 31	April 1	April 2
Issue E (Company to become wholly-owned subsidiary and delisted)		Last day cum-rights	Ex-rights day	Record date	Effective date	Day after effective date
	Closing price on exchange	250.00 yen	None	None	None	None
Issue F (already-listed company)					Effective date	Day after effective date
	Base price	-	740.00 yen	740.00 yen	-	-
	Closing price on exchange	None	None	None	750.00 yen	751.00 yen
Issue E → Issue F	Volume of Borrowing and Lending (for passed delivery dates)	Issue E: 15 shares	Issue E: 15 shares	Issue E: 15 shares	Issue F: 5 shares	Issue F: 5 shares
Borrowing and Lending Fee calculation		15 shares of E × closing price of E on previous day (closing price on March 28) × 3% × 1/365	15 shares of E × closing price of E on previous day × 3% × 1/365	15 shares of E × Final closing price of E on March 29 (250.00 yen) × 3% × 1/365	5 shares of F × base price of F (740.00 yen) [32]× 3% × 1/365	5 shares of F × closing price of F on previous day (750.00 yen) × 3% × 1/365

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[32] Same as above. (The "base price" used for share certificates newly listed after a merger, stock transfer, or share exchange is available as a CSV file via the consolidated web terminal of the Account Transfer System for Stocks, etc. from 7am of the effective date)