

# **RULES CONCERNING HANDLING OF CONDITIONAL SALE AND PURCHASE OF BONDS, ETC.**

**(July 30, 1992)**

## **(Purpose)**

**Article 1** The purpose of the Rules on Handling of Conditional Sale and Purchase of Bonds, etc. (hereinafter referred to as the “Rules”) is to prescribe the necessary matters on the execution of a Transaction with Repurchase Agreement, the scope of Bonds, etc. subject to the Transaction, and a method of transaction, etc. concerning the conditional sale and purchase of bonds, etc. (the sale and purchase of bonds, etc. with the condition of repurchasing or reselling the bonds, etc. that is the same type with the same volume as that is subject to the sale and purchase by a predefined date in the future (including the date defined by the predefined method) at the predefined value (including the value calculated based on the predefined calculation method); hereinafter referred to as the “Transaction with Repurchase Agreement”), in order to conducting fair and smooth Transaction with Repurchase Agreement, thus contributing to investor protection.

## **(Compliance with Laws, Ordinances and Rules, etc.)**

**Article 2** When conducting the Transactions with Repurchase Agreement with a customer (including another Association Member; the same shall apply hereinafter), an Association Member must comply with the Financial Instruments and Exchange Act (hereinafter referred to as “FIEA”) and other related laws, ordinances and rules, etc. in addition to these Rules.

## **(Definitions)**

**Article 3** The terms set forth in each of the following Items shall have their respective definitions prescribed therein for the purpose of the Rules:

- (1) Individual Transaction with Repurchase Agreement: An Individual Transaction with Repurchase Agreement.
- (2) Seller: A person who sells Bonds, etc. subject to the Transaction to a Purchaser at the Starting Transaction of the Individual Transaction with Repurchase Agreement.
- (3) Purchaser: A person who purchases Bonds, etc. subject to the Transaction from a Seller at the Starting Transaction of Individual Transaction with Repurchase Agreement.
- (4) Starting Transaction: A transaction where the Seller sells the Bonds, etc. subject to the Transaction to the Purchaser at the Individual Transaction with Repurchase Agreement.
- (5) Ending Transaction: A transaction where the Purchaser sells back the Bonds, etc. of the Same Type with Same Volume to the Seller at the Individual Transaction with Repurchase Agreement.
- (6) Bonds, etc. subject to the Transaction: Bonds, etc. subject to the sale and purchase at the Starting Transaction, or the bonds, etc. that is newly delivered due to Substitution of the bonds, etc. Provided, however, for Transaction with Repurchase Agreement with Issue Later Decided, the bonds, etc. subject to sale and purchase in the Starting Transaction shall be those allocated by the issue allocation organization based on the Basket set for the Individual Transaction with Repurchase Agreement.

- (7) Transaction Period: A period from the delivery date of the Starting Transaction to the delivery date of the Ending Transaction.
- (8) Transaction Volume: A volume defined as the total face amount of the Bonds, etc. prescribed by the transaction at the Individual Transactions with Repurchase Agreement.
- (9) Rate of Repurchase Agreement: A rate that is used as a base to calculate the sale and purchase price of the Ending Transaction, and prescribed by the Individual Transactions with Repurchase Agreement.
- (10) Same Type with Same Volume: The issuer, issue number, type, face amount, quantity, and taxable/non-taxable status are the same.
- (11) Bonds, etc. of the Same Type with Same Volume: The bonds, etc. are of the Same Type with Same Volume as the Bonds, etc. subject to the Transaction at the Individual Transactions with Repurchase Agreement
- (12) With Accrued Interest: The sale and purchase unit price is indicated with the accrued interest included.
- (13) Without Accrued Interest: The sale and purchase unit price is indicated with the accrued interest not included.
- (14) Current Price: A ratio of value including the accrued interest per 100% face amount based on the market price, or a ratio of value that is reasonably calculated, used in Transaction with Repurchase Agreement with Accrued Interest.
- (15) Current Price without Accrued Interest: A ratio of value excluding the accrued interest per 100% face amount based on the market price, or a ratio of value that is reasonably calculated, used in Transaction with Repurchase Agreement without Accrued Interest.
- (16) Market Capitalization:
  - (i) For Transaction with Repurchase Agreement with Accrued Interest, it means the value calculated by multiplying the Current Price by the volume;
  - (ii) For Transaction with Repurchase Agreement without Accrued Interest, it means the value calculated by adding the accrued interest to the Current Price without Accrued Interest, and then multiplying the calculation result above by the volume.
- (17) Ratio of Calculating the Sale and Purchase Amount: The following ratios are used in the Individual Transaction with Repurchase Agreement:
  - (i) For Transaction with Repurchase Agreement with Accrued Interest, a ratio that is calculated by dividing the Current Price of the Bonds, etc. subject to the Transaction at the time of contracting the transaction by the sale and purchase unit price of the Starting Transaction then subtracting 1 from the ratio resulting from the above calculation;
  - (ii) For Transaction with Repurchase Agreement without Accrued Interest, a ratio calculated by adding the accrued interest on the delivery date of the Starting Transaction to the Current Price without Accrued Interest of the Bonds, etc. subject to the Transaction at the time of contracting the transaction, dividing the above calculation result by the calculation result of adding the accrued interest on the delivery date of the Starting Transaction to the sale and purchase unit price of the Starting Transaction and then subtracting 1 from the ratio

resulting from the above calculation.

- (18) Credit Amount for Individual Transaction: In the Individual Transaction with Repurchase Agreement, the difference between the amount of (i) and (ii) below in the Individual Transaction with Repurchase Agreement at any timing between the delivery date of the Starting Transaction and the delivery date of the Ending Transaction (however, if the date when the Bonds, etc. of the Same Type with Same Volume is delivered to the Seller or the date when the transaction completed is later than the delivery date of the Ending Transaction, it shall be such date):
- (i) The amount calculated by multiplying the sale and purchase amount of the Ending Transaction in case such timing is regarded the delivery date of the Ending Transaction by the Ratio of Calculating the Sale and Purchase Amount plus 1;
  - (ii) The Market Capitalization of the Bonds, etc. of the Same Type with Same Volume at such timing.
- (19) Net Credit Amount: If the total Credit Amount for the Individual Transaction of one party minus the amount of collateral (if it is the case of collateral money, it includes the accrued interest of the collateral money; if it is the case of collateral securities, the amount should be the value calculated by multiplying the Market Capitalization at that time by the assessment rate of collateral) given to such one party exceeds the total Credit Amount for the Individual Transaction of the other party minus the amount of collateral given to such other party, it means such exceeding amount.
- (20) Reevaluation Transaction: A method in which the Individual Transaction with Repurchase Agreement is completed once at any timing between the delivery date of the Starting Transaction and the delivery date of the Ending Transaction, and a new Individual Transaction with Repurchase Agreement is executed by the delivery date of the initial Ending Transaction with the same Rate of Repurchase Agreement as that in the previous transaction using a new starting sale and purchase unit price based on the actual market unit price at that timing for the Bonds, etc., of the Same Type with Same Volume.
- (21) Substitution of the Bonds, etc. subject to the Transaction: A method to substitute the Bonds, etc. subject to the Transaction by delivering the initial Bonds, etc. subject to the Transaction from the Purchaser to the Seller at any timing between the delivery date of the Starting Transaction and the delivery date of the Ending Transaction, and, at the same time, an alternative bond, etc. that has an equivalent or higher Market Capitalization than that of the initial Bonds, etc. subject to the Transaction is provided from the Seller to Purchaser.
- (22) Transaction with Repurchase Agreement with Accrued Interest: The Individual Transaction with Repurchase Agreement in which the sale and purchase unit price is indicated with Accrued Interest, and if interest, etc. is generated from the Bonds, etc. subject to the Transaction during the Transaction Period, the amount equivalent to such interest, etc. is delivered from the Purchaser to the Seller.
- (23) Transaction with Repurchase Agreement without Accrued Interest: The Individual Transaction with Repurchase Agreement in which the sale and purchase unit price is indicated without Accrued Interest, and if interest, etc. is generated from the Bonds, etc. subject to the Transaction during the Transaction Period, the amount equivalent to such interest, etc. is not delivered from the Purchaser to the Seller.
- (24) Basket: A type of bonds, etc. established by the issue allocation organization based on the Issue Allocation Organization Rules, etc. in order to identify the range of issue of bonds, etc. subject to allocation for the Transaction with Repurchase Agreement with Issue Later Decided. In case of

an Individual Transaction with Repurchase Agreement, the type of bonds, etc. set for the said Individual Transaction with Repurchase Agreement.

- (25) Transaction with Repurchase Agreement with Issue Later Decided: An Individual Transaction with Repurchase Agreement whose Bonds, etc. subject to sale and purchase for the Starting Transaction are identified by means of Basket when contracting the Individual Transaction with Repurchase Agreement.
- (26) Issue Allocation Organization Rules, etc.: Either i) rules, operating procedures, and other provisions (including related bylaws of the said rules and agreements, etc. concluded in relation to the said rules) set forth by the issue allocation organization; or ii) agreements with the issue allocation organization that binds one party or the other party of the Individual Transaction with Repurchase Agreement, that set the provisions for the allocation, etc. of Bonds, etc. subject to the Transaction for an Individual Transaction with Repurchase Agreement that is a Transaction with Repurchase Agreement with Issue Later Decided.

**(Conclusion, etc. of Agreement on the Transaction with Repurchase Agreement)**

**Article 4** When an Association Member starts the Transaction with Repurchase Agreement, it shall execute a master agreement that satisfies the requirements set forth in Paragraph 4 (hereinafter referred to as the “Master Agreement”) with a customer in advance, and manage/retain such agreement.

- 2. Each time the contract for an Individual Transaction with Repurchase Agreement is concluded (including the cases where the Reevaluation Transaction is made or the Substitution of the Bonds, etc., subject to the Transaction is made), an Association Member shall deliver an individual transaction statement that satisfies the requirements set forth in Paragraph 5 (hereinafter referred to as the “Individual Transaction Statement”) to the customer pursuant to the Master Agreement prescribed in the provision of the preceding Paragraph.
- 3. Notwithstanding the preceding Paragraph, an Association Member does not need to deliver the Individual Transaction Statement prescribed in the provision of the preceding Paragraph if all the requirements set forth in the Items below are fulfilled:
  - (1) The customer fulfills either of the following requirements:
    - (i) The customer is a Professional Investor (Professional Investors prescribed in the provision of Article 2, Paragraph 31 of the FIEA) (excluding those who are regarded as customers other than the Professional Investors prescribed in the provision of Article 34-2, Paragraph 5 of the FIEA, and including those who are regarded as Professional Investors prescribed in the provision of Article 34-3, Paragraph 4 of the FIEA (including the cases where it applies *mutatis mutandis* in Article 34-4, Paragraph 6 of the FIEA));
    - (ii) The customer concluded a Discretionary Investment Contract prescribed in the provision of Article 2, Paragraph 8, Item (12)-(ii) of the FIEA with an Association Member who conducts the investment management business prescribed in the provision of Article 28, Paragraph 4 of the FIEA.
  - (2) An Association Member agrees with a customer in advance in writing or via a method using information technology that the Association Member does not need to deliver the Individual Transaction Statement to the customer.
  - (3) An Association Member establishes a system to immediately respond to an inquiry on the details of the Individual Transactions with Repurchase Agreement from a customer.

4. An Association Member shall describe how to handle the matters listed in each Item below on the Master Agreement prescribed in the provision of Paragraph 1. However, description of matters set forth from Item (4) through (8) shall be omitted if the member does not plan to handle them with the customer:

- (1) Delivery of Individual Transaction Statement;
- (2) Timing of transfer of rights;
- (3) Measures to handle early redemption;
- (4) Ratio of Calculating the Sale and Purchase Amount;
- (5) Reevaluation Transaction;
- (6) Substitution of the Bonds, etc. subject to the Transaction
- (7) Management, etc. of collaterals
- (8) How to make payment in a foreign currency
- (9) Prohibition of transfer and pledge of rights
- (10) Handling of blanket clearing in case of the default;

5. An Association Member shall describe the matters set forth in each Item below in the Individual Transaction Statement prescribed in the provision of Paragraph 2. However, description of the matters that are not applicable in the Individual Transaction with Repurchase Agreement may be omitted:

- (1) Name of the Purchaser and the Seller
- (2) Bonds, etc. subject to the Transaction (Regarding the pre-auction transaction of national government bonds, the fact that it is a pre-auction transaction and a scheduled redemption date must be described, and the issue name shall be input after the auction date without delay. Regarding Transaction with Repurchase Agreement with Issue Later Decided, the name, abbreviation, or issue code of the Basket must be described);
- (3) Transaction Volume
- (4) Rate of Repurchase Agreement
- (5) Transaction contract date
- (6) Delivery date of the Starting Transaction
- (7) Sale and purchase unit price of the Starting Transaction (Regarding the pre-auction transaction of government bonds, the unit price shall be input after the auction date without delay);
- (8) Sale and purchase amount of the Starting Transaction (Regarding the pre-auction transaction of government bonds, the amount shall be input after the auction date without delay);
- (9) Ratio of Calculating the Sale and Purchase Amount
- (10) Delivery date of the Ending Transaction (if the delivery date of the Ending Transaction is

determined after the transaction contract date, and if it is agreed that a document describing the delivery date of the Ending Transaction is to be provided without delay after the determination of the delivery date of Ending Transaction, description of this matter shall be omitted);

(11) Sale and purchase unit price of the Ending Transaction (if it is agreed that a document describing this matter is to be provided without delay after the determination of the delivery terms and conditions of the Ending Transaction, description of this matter shall be omitted. Regarding the pre-auction transaction of government bonds, the unit price shall be input after the auction date without delay);

(12) Sale and purchase amount of the Ending Transaction (if it is agreed that a document describing this matter is to be provided without delay after the determination of the delivery terms and conditions of the Ending Transaction, description of this matter shall be omitted. Regarding the pre-auction transaction of national government bonds, the unit price shall be input after the auction date without delay);

(13) Other matters that are specifically defined in the Individual Transaction with Repurchase Agreement.

6. In case the delivery of Individual Transaction Statement is omitted pursuant to the provision of Paragraph 3, an Association Member shall confirm the matters set forth in the provision of each Item of the preceding Paragraph in a method agreed with a customer. Provided, however, this provision shall not apply to the matters that are not applicable to the Individual Transaction with Repurchase Agreement.

**(Customer subject to the Transactions with Repurchase Agreement)**

**Article 5** When an Association Member engages in a Transaction with Repurchase Agreement, the counterparty shall be limited to economically and socially credible listed companies or corporations with similar status. In selecting a counterparty, the Association Member shall fully consider the financial condition, financing, profitability, etc., (hereinafter referred to as “Financial Standing, etc.,” within this Article) of the counterparty.

2. Notwithstanding the provision of the second sentence of the preceding Paragraph, when engaging in a Transaction with Repurchase Agreement for a trust property with the trustee (in a case of re-entrustment, this shall mean the trustee of the re-entrustment; the same shall apply hereinafter) of the trust (including those established in a foreign state under the laws and regulations thereof; the same shall apply hereinafter), an Association Member shall fully consider the details of the trust property, status of investment, etc., of the trust, in selecting a counterparty. However, if the trustee’s own property is included in the non-exempt property for a debt arising to the trustee from the Transaction with Repurchase Agreement, the Association Member may consider the Financial Standing, etc., of the trustee.

3. Notwithstanding the provision of the second sentence of Paragraph 1, when engaging in a Transaction with Repurchase Agreement with a representative of any of the partnerships listed in the items below (including similar organizations established under foreign laws and regulations; the same shall apply hereinafter) for a partnership property of the partnership, an Association Member shall fully consider the details of the partnership’s business, status of partnership property, etc., in selecting a counterparty. However, if the partnership representative’s own property is included in the non-exempt property for a debt arising to the partnership representative from the Transaction with Repurchase Agreement, the Association Member may consider the Financial Standing, etc. of the partnership representative.

(1) Partnership established under a partnership contract pursuant to Article 667, Paragraph 1 of the Civil Code;

- (2) Silent partnership established under a silent partnership contract pursuant to Article 535 of the Commercial Code;
- (3) Investment limited liability partnership as set forth in Article 2, Paragraph 2 of the Limited Partnership Act for Investment; or
- (4) Limited liability partnership as set forth in Article 2 of the Limited Liability Partnership Act.

**(Scope of the Bonds, etc. subject to the Transaction)**

**Article 6** An Association Member shall handle the bonds, etc. listed in each Item below in the Transaction with Repurchase Agreement:

- (1) National government bonds (national government bonds set forth in the provision of Article 2, Paragraph 1, Item (1) of the FIEA);
  - (2) Municipal bonds (municipal bonds set forth in the provision of Article 2, Paragraph 1, Item (2) of the FIEA);
  - (3) Bonds issued by a juridical person under a special act (bonds set forth in the provision of Article 2, Paragraph 1, Item (3) of the FIEA);
  - (4) Specified company bonds (specified company bonds set forth in the provision of Article 2, Paragraph 1, Item (4) of the FIEA);
  - (5) Company bonds (company bonds set forth in the provision of Article 2, Paragraph 1, Item (5) of the FIEA excluding the bonds with share option);
  - (6) Investment corporation bonds (investment corporation bonds set forth in the provision of Article 2, Paragraph 1, Item (11) of the FIEA);
  - (7) Bonds issued by a foreign state or foreign person and having the same nature as prescribed in the respective Item above;
  - (8) Domestic commercial paper (CP) (promissory notes set forth in the provision of Article 2, Paragraph 1, Item (15) of the FIEA and securities or certificates set forth in the provision of Item (17) of the same Paragraph that have a nature of the promissory notes set forth in Item (15) of the same Paragraph, and that are issued in Japan);
  - (9) Foreign certificate of deposit (CD) (certificate of deposit of negotiable deposit that is set forth in the provision of Article 1, Item (1) of the Enforcement Ordinance of the FIEA);
  - (10) Foreign commercial paper (CP) (securities or certificate set forth in the provision of Article 2, Paragraph 1, Item (17) of the FIEA that have a nature of the promissory notes set forth in the provision of the same Paragraph, Item (15), and that are issued in a foreign country);
  - (11) Foreign loan trust beneficiary certificate (securities or certificates set forth in the provision of Article 2, Paragraph 1, Item (18) of the FIEA).
2. When an Association Member conducts the Transaction with Repurchase Agreement, the Association Member shall be careful about the right and obligation relationship of the Bonds, etc. subject to the Transaction, and fully consider the liquidity and price trend, etc. of the issue.

3. In principle, an Association Member shall not handle the bond that is registered under the name of a different person.

**(Sale and Purchase Unit Price or Sale and Purchase Amount)**

**Article 7** When an Association Member determines the sale and purchase unit price at the time of sale or purchase in the Transaction with Repurchase Agreement of the bonds, etc. with a customer, the Association Member shall determine the unit price based on the “Rules Concerning Publication of Over-The-Counter Trading Reference Prices, etc. and Trading Prices of Bonds,” and the “Rules Concerning Foreign Securities Transactions”

2. When an Association Member conducts the Transaction with Repurchase Agreement of domestic CP, foreign CD, foreign CP, or foreign loan trust beneficiary certificate, its sale and purchase price at the time of sale or purchase shall be appropriate in consideration of the interest rate level and financial market condition, etc.
3. In the preceding two Paragraphs, in case the Ratio of Calculating the Sale and Purchase Amount is applied at the calculation of the starting sale and purchase unit price or the starting sale and purchase amount, the Ratio must be a reasonable figure in consideration of the price volatility risk of the Bonds, etc. subject to the Transaction and the credit risk of the counterparty.

**(Management, etc. of Collaterals)**

**Article 8** In case an Association Member has a Net Credit Amount against a customer in the Individual Transaction with Repurchase Agreement, the Association Member may request the customer at any time during the Transaction Period to provide the collateral money that is at least equivalent to the Net Credit Amount, by sending a notice to the customer.

2. An Association Member may impose interest on the collateral money prescribed in the preceding Paragraph.
3. The collateral money prescribed in Paragraph 1 may be replaced by securities, etc.
4. The type and the Market Capitalization of the securities, etc. that are acceptable as a replacement for the collateral money (hereinafter referred to as “Collateral Securities”) shall be determined by mutual agreement between the parties.
5. When accepting the Collateral Securities as a replacement for the collateral money, it shall carefully check the effectiveness of such Collateral Securities as collateral, and prepare/retain evidence materials and documents.

**(Application of the Ratio of Calculating the Sale and Purchase Amount)**

**Article 9** An Association Member may use the Ratio of Calculating the Sale and Purchase Amount when calculating the starting sale and purchase unit price of the Individual Transaction with Repurchase Agreement if the Association Member agrees with the customer. Provided, however, the Ratio of Calculating the Sale and Purchase Amount may not be changed by the closing of the Individual Transaction with Repurchase Agreement.

2. When the Substitution of the Bonds, etc. subject to the Transaction is made, it is not prohibited to apply different Ratio of Calculating the Sale and Purchase Amount to the initial Bonds, etc. subject to the Transaction and to the substituted Bonds, etc. subject to the Transaction, respectively.

**(Application of Reevaluation Transaction)**



**Article 10** An Association Member may cancel the Net Credit Amount by conducting the Reevaluation Transaction in the Individual Transaction with Repurchase Agreement after obtaining consent from a customer.

**(Application of Substitution of the Bonds, etc. subject to the Transaction)**

**Article 11** An Association Member may conduct the Substitution of the Bonds, etc. subject to the Transaction in the Individual Transaction with Repurchase Agreement after obtaining consent from a customer.

**(Period, etc.)**

**Article 12** When an Association Member conducts the commissioned Transaction with Repurchase Agreement, it shall set, in principle, the period which synchronizes the sale date and the purchase date in the Starting Transaction, and the repurchase date and the resell date in the Ending Transaction.

**(Delivery of Transaction with Repurchase Agreement)**

**Article 13** When an Association Member conducts the Starting Transaction as a Seller, or conducts the Ending Transaction as a Purchaser, the Association Member shall delivery the bonds in either of the methods set forth in the respective Items below:

- (1) Purchasing before the delivery date;
- (2) Not purchasing before the delivery date but borrowing a bond in the bond lending transaction and delivering it;
- (3) Not purchasing before the delivery date, but delivering a bond that is accepted as a collateral in the transaction of bonds, etc. with repurchase agreement, the lending transaction of bonds, a transaction prescribed in Article 28, Paragraph 8, Item (4) of the FIEA among transactions of securities-related derivatives that is prescribed in the provision of same Article, same Paragraph, Item (6) of the FIEA, and a financial derivative transaction prescribed in the provision of Article 10, Paragraph 2, Item (14) of the Banking Act, and that can be consumed under the agreement.

**(Prudent Use)**

**Article 14** An Association Member shall not conduct excessively the Transaction with Repurchase Agreement in light of the asset condition of the customer, and shall be careful not to concentrate excessively on a single counterparty.

**(Establishment of Internal Rules)**

**Article 15** An Association Member shall establish internal rules for the Transaction with Repurchase Agreement in order to ensure transparency and fairness of the Transaction with Repurchase Agreement.

**(Delivery via Electromagnetic Methods)**

**Article 16** An Association Member may provide matters that should be described in the documents listed below in a method using an electronic information processing organization or other methods using information technology as an alternative to the delivery of the documents listed below pursuant to the “Regulation Concerning the Treatment of Provision, etc., of Documents Using Electromagnetic Methods.” In such case, the Association Member shall be regarded as having delivered such

documents.

- (1) Individual Transaction Statement prescribed in the provision of Article 4, Paragraph 2;
- (2) A document describing the delivery date of the Ending Transaction that is prescribed in the provision of Article 4, Paragraph 5, Item (10);
- (3) A document describing the ending sale and purchase unit price that is prescribed in the provision of Article 4, paragraph 5, Item (11);
- (4) A document describing the ending sale and purchase price that is prescribed in the provision of Article 4, paragraph 5, Item (12);

**(Agreement in Electromagnetic Methods)**

**Article 17** An Association Member may conclude the Master Agreement prescribed in the provision of Article 4, Paragraph 1 in a method using an electronic information processing organization or other methods using information technology as an alternative to the exchange of the Master Agreement in writing. In such case, the Association Member shall be regarded as having exchanged the Master Agreement.

2. In case an Association Member who exchanges the Master Agreement pursuant to the provision of the preceding Paragraph receives an inquiry from a customer on the details of the agreement, it must reply, without delay, to the customer who made such inquiry with the details of the agreement, in writing, orally, by telegraph, by telephone, in a method using an electronic information processing organization, or by other methods

**SUPPLEMENTARY PROVISIONS [Omitted]**

(Note) These Rules are based on the version in effect as of January 18, 2021.

<p>This translation is solely for the convenience of those interested therein, and accordingly all questions that may arise with regard to the meaning of the words or expressions herein shall be dealt with in accordance with the original Japanese text.</p>
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