

RULES CONCERNING HANDLING OF SHORT SALE AND BORROWING AND LENDING TRANSACTION OF BONDS

(July 30, 1992)

(Purpose)

Article 1 The purpose of the Regulations on Handling of Short Sale and Borrowing and Lending Transaction of Bonds (hereinafter referred to as the “Rules”) is to prescribe the necessary matters on the execution of an agreement on Borrowing and Lending Transaction of Bonds, the scope of bonds subject to the transaction, and a transaction method, etc. concerning Short Sale of Bonds and Borrowing and Lending Transaction of Bonds on a marketable securities account conducted over the counter by an Association Member in order to make fair and smooth Borrowing and Lending Transaction, thus contributing to sound development of the public bond market.

(Compliance with Laws, Ordinances and Rules, Etc.)

Article 2 When conducting a Short Sale and a Borrowing and Lending Transaction of Bonds with a counterparty (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) Short Sale of Bonds: Sale of bonds on the contract date without holding such bonds.
- (2) Borrowing and Lending Transaction of Bonds: A Borrowing and Lending Transaction of Bonds for consumption where one party (lender) lends a bond to the other party (borrower), and, after a period agreed upon by the two parties concerned has passed, the borrower returns to the lender the bond that is of the same type with the same volume as that which was borrowed.
 - (a) Lender: A party who lends a bond in the Borrowing and Lending Transaction of Bonds;
 - (b) Borrower: A party who borrows a bond in the Borrowing and Lending Transaction of Bonds;
 - (c) Individual Transaction: An individual Borrowing and Lending Transaction of Bonds;
 - (d) Individual Agreement: An agreement concluded by the parties concerned in the Individual Transaction;
 - (e) Borrowing and Lending Period: A period during which the bond is lent/borrowed as prescribed in the Individual Agreement;
 - (f) Borrowing and Lending Fee: An amount paid by the Borrower to the Lender as a consideration of the Lending of bonds as prescribed in the Individual Agreement;
 - (g) Borrowing and Lending Fee Rate: An annual rate prescribed in a percentage that is a basic rate for calculating the Borrowing and Lending Fee, and that is discussed and agreed upon by the parties concerned in consideration of the interest rate and other conditions.
 - (h) Issue subject to the Transaction: An issue subject to the Borrowing and Lending Transaction

of Bonds that is prescribed in the Individual Agreement;

- (i) Borrowing and Lending Volume: A face amount of the Issues subject to the transaction as prescribed in the Individual Agreement;
- (j) Transaction Execution Date: A starting date of the Borrowing and Lending Period as prescribed in the Individual Agreement;
- (k) Transaction Settlement Date: A closing date of the Borrowing and Lending Period as prescribed in the Individual Agreement;
- (l) Market Price: A price or quotation that is reasonable and proper.

(Short Sale of Bonds)

Article 4 When an Association Member conducts the Short Sale of Bonds, the Association Member shall deliver the bonds in any 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 Borrowing and Lending Transaction of Bonds 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 with repurchase agreement, the Borrowing and Lending Transaction of Bonds, transactions prescribed in Article 28, Paragraph 8, Item 4 of the FIEA among Transactions of Securities-Related Derivatives that are prescribed in the provision of the same Article, the same Paragraph, Item 6 of the FIEA, or Financial Derivative Transactions prescribed in the provision of Article 10, Paragraph 2, Item 14 of the Banking Act, and that can be consumed under the agreement.

2. The bonds that can be handled by an Association Member in the Short Sale of Bonds shall be those set forth in the provision of Article 6.

(Conclusion of Agreement on Borrowing and Lending Transaction of Bonds)

Article 5 When an Association Member starts the Borrowing and Lending Transaction of Bonds, the Association Member shall conclude a master agreement that sets forth the matters listed in the items under Paragraph 4 (hereinafter referred to as “Master Agreement”) with the counterparty in advance, and manage/retain such agreement.

2. Every time the Borrowing and Lending Transaction of Bonds is contracted under the Master Agreement prescribed in the preceding Paragraph, an Association Member shall conclude an individual transaction agreement that sets forth the matters listed in the items under Paragraph 5 (hereinafter referred to as “Individual Transaction Agreement”) with the counterparty. However, if the Association Member concludes the letter of consent for the omission of the Individual Transaction Agreement (hereinafter referred to as “Letter of Consent”) with the counterparty, the Association Member may substitute an individual transaction statement that sets forth the matters listed in the items under the same Paragraph (hereinafter referred to as “Individual Transaction Statement”) for the conclusion of the Individual Transaction Agreement.

3. Notwithstanding the preceding Paragraph, an Association Member does not need to conclude the Individual Transaction Agreement or deliver the Individual Transaction Statement if all the requirements set forth in the respective Items below are fulfilled:

- (1) The counterparty fulfills either of the following requirements:

- (a) The counterparty 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 pursuant to the provision of Article 34-2, Paragraph 5 of the FIEA, and including those who are regarded as the Professional Investors pursuant to the provision of Article 34-3, Paragraph 4 of the FIEA (including the cases where it applies *mutatis mutandis* to Article 34-4, Paragraph 6 of the FIEA); the same shall apply hereinafter);
- (b) The counterparty concluded a Discretionary Investment Contract prescribed in the provision of Article 2, Paragraph 8, Item 12(b) 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 counterparty in advance in writing or via a method using information technology that the Association Member does not need to conclude the Individual Transaction Agreement with the counterparty or deliver the Individual Transaction Statement to the counterparty.

(3) An Association Member prepares a system to immediately respond to an inquiry from a counterparty on the details of the Individual Borrowing and Lending Transactions.

4. An Association Member shall describe the matters listed in the respective Items below on the Master Agreement prescribed in the provision of Paragraph 1.

- (1) Method of concluding the Individual Agreement on the Borrowing and Lending Transaction of Bonds;
- (2) How to pay the Borrowing and Lending Fee
- (3) How to deliver the bonds
- (4) Acceptance of collateral money for transactions
- (5) Payment method in case of foreign currency;
- (6) Prohibition of transfer and pledge of rights
- (7) How to handle interest of bonds subject to the Borrowing and Lending Transaction
- (8) Measures taken in the case of non-fulfillment of contract

5. An Association Member shall describe the matters listed in the respective Items below on the Individual Transaction Agreement and the Individual Transaction Statement prescribed in the provision of Paragraph 2:

- (1) Contract date;
- (2) Issue name (Regarding the pre-auction transaction of national government bonds, the fact that it is a pre-auction transaction and a scheduled redemption date shall be described, and the issue name shall be input after the auction date without delay);
- (3) Borrowing and Lending Volume
- (4) Lender
- (5) Borrower

(6) Borrowing and Lending Period

(7) Borrowing and Lending Fee (Regarding the pre-auction transaction of national government bonds, the Borrowing and Lending Fee shall be described after the auction date without delay).

6. In the case where the conclusion of Individual Transaction Agreement or 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 provisions in the respective Items of the preceding Paragraph with a counterparty in a method agreed upon with the counterparty.

(Scope of Bonds Subject to Borrowing and Lending Transaction)

Article 6 An Association Member shall handle the bonds, listed in the respective Items below in the Borrowing and Lending Transaction of Bonds:

- (1) National government bonds (national government bonds set forth in the provision of Article 2, Paragraph 1, Item 1 of the FIEA; the same shall apply hereinafter);
- (2) Municipal bonds (municipal bonds set forth in the provision of Article 2, Paragraph 1, Item 2 of the FIEA; the same shall apply hereinafter);
- (3) Bonds issued by a juridical person under a special act (securities set forth in the provision of Article 2, Paragraph 1, Item 3 of the FIEA; the same shall apply hereinafter);
- (4) Specified company bonds (specified company bonds set forth in the provision of Article 2, Paragraph 1, Item 4 of the FIEA; the same shall apply hereinafter);
- (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; the same shall apply hereinafter);
- (6) Investment corporation bonds (investment corporation bonds set forth in the provision of Article 2, Paragraph 1, Item 11 of the FIEA; the same shall apply hereinafter);
- (7) Bonds issued by a Foreign State or foreign person and have the same nature as prescribed in the respective Items above

(Acceptance of Collateral Money for Transaction)

Article 7 When an Association Member becomes the Lender in the Borrowing and Lending Transaction of Bonds, the Association Member shall accept collateral money for the transaction from the Borrower by the Transaction Execution Date in principle. The amount of such collateral money for transaction shall be determined by the Lender and Borrower in mutual consultation based on the Market Price of the bonds subject to the Borrowing and Lending Transaction.

2. An Association Member may charge interest on cash that is accepted as collateral money for transaction from the Borrower.

(Additional Provision of Collateral Money for Transaction)

Article 8 In the case where an Association Member is the Lender in the Borrowing and Lending Transaction of Bonds, when the counterparty incurs a book loss due to the fluctuation of the market, etc. and the Association Member deems it necessary, the Association Member shall accept the additional provision of collateral money for transaction from the Borrower.

(Substitution of Collateral Money for Transaction)

Article 9 The collateral money for transaction prescribed in the provisions of the preceding two Paragraphs may be substituted with the securities set forth in the respective Items below. The acceptable value of the substitute securities shall not exceed the amount that is calculated by multiplying the Market Price of the substitute securities on the previous day by the ratio set forth in the respective Items below. However, if the Borrower is a listed company or a corporation that has a status equivalent to that of the listed company and is a counterparty with high credibility both economically and socially, the type of securities used as a substitute shall be determined in mutual agreement between the parties concerned, and the acceptable value of the substitute securities shall be a reasonable value based on the Market Price of such securities.

- (1) Share certificates listed in a financial instruments exchange market of Japan (including foreign investment securities (those similar to Investment Securities issued by a foreign investment corporation), foreign depositary receipts (including securities and certificates that are set forth in the provision of Article 2, Paragraph 1, Item 20 of the FIEA and are depositary receipts indicating the right on a share certificate issued by a foreign corporation), and preferred equity investment certificates (preferred equity investment certificates issued by Cooperative Structured Financial Institution)); 65/100
- (2) National government bonds 90/100
- (3) Municipal bonds (limited to the cases where a wholesale underwriting contract was concluded by a Financial Instruments Business Operator that conducts the Securities-Related Business (Securities-Related Business prescribed in the provision of Article 28, Paragraph 8 of the FIEA; the same shall apply hereinafter) at the time of issuance); 80/100
- (4) Bonds issued by a juridical person under a special act
 - (a) Those whose redemption of the principal and the payment of interest are guaranteed by the government 85/100
 - (b) Others 80/100
- (5) Specified company bonds 80/100
- (6) Company bonds listed in a financial instruments exchange market in Japan or company bonds issued by a company whose share certificate is listed in a financial instruments exchange market in Japan (excluding bonds issued by a foreign person and limited to cases where a Wholesale Underwriting Contract was executed by a Financial Instruments Business Operator that conducts the Securities-Related Business)
 - (a) Company bonds other than bonds with share option; 80/100
 - (b) Bonds with share option; 75/100
- (7) Investment corporation bonds (investment corporation bonds listed in a financial instruments exchange market in Japan or investment corporation bonds issued by a company whose investment securities are listed in a financial instruments exchange market in Japan (limited to cases where a Wholesale Underwriting Contract was executed by a financial instruments business operator that conducts the Securities-Related Business)); 80/100
- (8) Yen-denominated foreign national government bonds listed in a financial instruments exchange market in Japan; 80/100
- (9) Yen-denominated foreign municipal bonds listed in a financial instruments exchange market in Japan 80/100

(10) Yen-denominated bonds issued by International Bank for Reconstruction and Development	85/100
(11) Yen-denominated bonds issued by Asian Development Bank	85/100
(12) Yen-denominated bonds issued by a foreign person excluding the issuer set forth in the preceding four Items, and listed in a financial instruments exchange market in Japan;	80/100
(13) Beneficiary securities of investment trusts (beneficiary securities of investments trusts) or investment securities (limited to those listed in a financial instruments exchange market in Japan and whose Market Price on the previous day is publicized by the Investment Trusts Association);	
(a) Beneficiary securities of public bond investment trusts	80/100
(b) Others	65/100
(14) US Treasury securities	85/100
(15) Negotiable deposits (excluding those issued outside of Japan)	80/100
(16) Domestic commercial paper (promissory notes set forth in the provision of Article 2, Paragraph 1, Item 15 of the FIEA, or securities or certificates set forth in the provision of Item 17 of the same Article, same Paragraph that have a nature of the promissory notes set forth in Item 15 of the same Article, same Paragraph and that are issued in Japan);	80/100
(17) Beneficiary securities of lending trusts (limited to those issued one year ago or before)	
(a) Beneficiary securities of a lending trusts where a trustee in the trust agreement is a person who receives such beneficiary securities as a collateral	85/100
(b) Others	80/100
(18) Beneficiary interest of joint designated money trust	
(a) Beneficiary interest of a joint designated money trust where the trustee in the trust agreement is a person who receives such beneficiary interest as a collateral	85/100
(b) Others	80/100
(19) Obligation based on the time deposit contract, negotiable deposit contract and contract of deposit at call	
(a) Obligation based on the deposit contract where the obligator is a person who receives such obligation;	90/100
(b) Others	80/100
(20) Payment guarantee contract by a bank	80/100

2. In the case where a difference in type of currency exists between that of the bond subject to the Borrowing and Lending Transaction and that of the collateral money for transaction received from the counterparty (in case the securities are accepted as a substitute of the collateral money, the currency of such securities), the acceptable value of the currency or securities to substitute for the collateral money shall not exceed the amount that is calculated by multiplying the substitute value in the same currency by 95/100. However, when the Borrower is a listed company or a corporation that has a status equivalent to that of the listed company and is a counterparty with high credibility both economically and socially, the type of acceptable currency or the acceptable value as a substitute shall be the reasonable one based on the

Market Price.

3. When accepting the securities as a substitute for the collateral money pursuant to Paragraph 1, it shall carefully check the effectiveness of such securities as collateral money, and prepare/retain evidence materials and documents.

(Reconciliation of Outstanding Amount of Borrowing and Lending)

Article 10 When an Association Member conducts the Borrowing and Lending Transaction of Bonds with a counterparty (excluding a Professional Investors; the same shall apply in the next Paragraph), it must reconcile the outstanding amount of the bonds subject to the Lending and the collateral money, etc. with the counterparty at least once every three months.

2. When reconciling the outstanding amount prescribed in the provision of the preceding Paragraph, if there was an outstanding amount after the last outstanding reconciliation with a counterparty and if no bond subject to the Borrowing and Lending or no collateral money for transaction exists with such counterparty, etc., the Association Member must confirm with such counterparty at the reconciliation that there is currently no outstanding amount.

(Delivery of Borrowing and Lending Transaction of Bonds)

Article 11 When an Association Member lends or returns bonds in the Borrowing and Lending Transaction of Bonds, the Association Member shall deliver the bonds in either of the methods set forth in the respective Items below:

- (1) Purchasing before the Transaction Execution Date in the case of lending, and the Transaction Settlement Date in the case of returning (hereinafter referred to as the “Bond Delivery Date” in this Article);
- (2) Not purchasing before the Bond Delivery Date but borrowing a bond in the Borrowing and Lending Transaction of Bonds and delivering it;
- (3) Not purchasing before the Bond Delivery Date, but delivering a bond that is accepted as a collateral in the transaction of bonds, etc. with repurchase agreement, the Borrowing and Lending Transaction of Bonds, transactions prescribed in the Article 28, Paragraph 8, Item 4 of the FIEA among Transactions of Securities-Related Derivatives that are prescribed in the provision of the same Article, the same Paragraph, Item 6 of the FIEA, or Financial Derivative Transactions 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 12 When an Association Member conducts the Short Sale of Bonds and the Borrowing and Lending Transaction of Bonds, the Association Member shall manage it in a prudent manner depending on the scale and business condition of the Association Member and shall always be careful not to conduct the business excessively.

(Prohibition of New Borrowing and Lending Transaction of Bonds)

Article 13 If a counterparty fulfills either of the following conditions, an Association Member must not conduct a new Borrowing and Lending Transaction of Bonds with such counterparty, unless otherwise agreed upon with the counterparty:

- (1) The Association Member made payment on behalf of the counterparty such as undelivered bonds or unsettled amounts in connection with the executed transaction;

(2) The collateral money is not provided;

(3) The Borrowing and Lending Transaction of Bonds is not appropriate in light of the transaction condition and other reasons

(Establishment of Internal Rules)

Article 14 An Association Member shall establish internal rules for the Borrowing and Lending Transaction of Bonds in order to ensure sound management.

(Report on Status of Transaction, Etc.)

Article 15 An Association Member shall report to the Association the status of the Borrowing and Lending Transaction of Bonds as prescribed by the Association.

(Delivery via Electromagnetic Methods)

Article 16 An Association Member may provide matters that should be described in the Individual Transaction Statement prescribed in the provision of Article 5, Paragraph 2 in a method using an electronic information processing system or other methods using information technology as an alternative to the delivery of such Individual Transaction Statement pursuant to the “Rules Concerning the Treatment of Provision, Etc. of Documents Using Electromagnetic Methods” In such case, the Association Member shall be regarded as having delivered such Individual Transaction Statement.

(Agreement, Etc. in Electromagnetic Methods)

Article 17 An Association Member may conclude the Master Agreement prescribed in the provision of Article 5, Paragraph 1 and the Individual Transaction Agreement prescribed in the provision of the same Article, Paragraph 2, or exchange the Letter of Consent in the provision of the same Paragraph in a method using an electronic information processing system or other methods using information technology as an alternative to the conclusion of such agreements and the exchange of such Letter of Consent. In such case, the Association Member shall be deemed to have concluded such agreements or to have exchanged such Letter of Consent.

2. In the case where an Association Member who concludes the agreements or exchanges the Letter of Consent pursuant to the provision of the preceding Paragraph receives an inquiry from a counterparty on the details of the agreements or the Letter of Consent, the Association Member must reply the details of the agreements or the Letter of Consent, without delay, in writing, orally, by telegraph, by telephone, in a method using an electronic information processing organization, or by other methods to the counterparty who made such inquiry.

SUPPLEMENTARY PROVISIONS [Omitted]

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

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.