DTCC DATA REPOSITORY (JAPAN) K.K.

Disclosure under the Principles for Financial Market Infrastructures

Responding Institution: DTCC Data Repository (Japan) K.K. ("DDRJ")
Jurisdiction in which the FMI operates: Japan
Authorities regulating, supervising, or overseeing the FMI: Japan Financial Services Agency (Regulation and Supervision), Bank of Japan (Oversight)
Date of Disclosure: July 29, 2016

The information provided in this disclosure is accurate as of December 31, 2015;
Information and data are provided as of the dates specified.
This disclosure can also be found at www.dtcc.com.
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1. EXECUTIVE SUMMARY

The Committee on Payment and Market Infrastructure and the Technical Committee of the International Organization of Securities Commissions (collectively, "CPMI-IOSCO") state that financial market infrastructures ("FMIs"), which include payment systems, central securities depositories, securities settlement systems, central counterparties, and trade repositories, play critical and important roles in strengthening the financial markets and facilitating the stabilization of the financial system. FMIs facilitate clearing, settling, reporting and recording of financial transactions, through its own role, contributing to the goal of financial stability. As one of the members of FMIs, DTCC Data Repository (Japan) K.K. ("DDRJ") as the trade repositories records and reports derivatives transactions pursuant to applicable law in the jurisdictions in which it is licensed, registered or designated. CPSS-IOSCO has recognized that, when properly managed, FMIs bring great benefits to promoting market safety.

In April 2012, CPMI-IOSCO issued a report on the Principles for financial market infrastructures (the "FMI Principles"), which harmonized, and in some cases strengthened, existing international standards applicable to FMIs. The report contains 24 FMI Principles covering the major types of risks faced by FMIs. One key objective of the FMI Principles is to encourage clear and comprehensive disclosure by FMIs through a public "Disclosure Framework" that explains how their businesses and operations reflect each of the applicable FMI Principles.

DDRJ was established under the Companies Act of Japan, as a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC") which is a U.S. corporation, and is subject to the supervision of the Japanese Financial Services Agency ("JFSA") in accordance with the Financial Instruments and Exchange Act ("FIEA"). DDRJ conducts the business of receiving trade information relating to over-the-counter ("OTC") derivatives transactions submitted from its customers, who are Financial Instruments Business Operators, etc., and reporting such transaction information to the JFSA, as a trade repository designated by the Prime Minister of Japan. This document is to disclose DDRJ's compliance status therewith in accordance with the "Principles for financial market infrastructures: Disclosure framework and Assessment methodology," and unless otherwise specified, this disclosure is current as of December 2015

DDRJ understands the necessity of a robust and comprehensive system for risk management to fulfill its responsibility as trade repository to improve transparency in the OTC derivatives markets, mitigate systemic risk and protect against market abuse. To manage the operational, and other risks to which it is exposed, DDRJ has established a robust risk governance structure that is incorporated into its organization, including the Board of Directors.

2. SUMMARY OF MAJOR CHANGES SINCE THE PREVIOUS UPDATE

DDRJ published its first disclosure on its compliance status therewith in accordance with the "Principles for financial market infrastructures: Disclosure framework and Assessment methodology, on July 31, 2015. Major change in this update from the first disclosure is as follows:

- In December 2015, DDRJ obtained the authorization from the Prime Minister of Japan for its revised Operating Rules, and disclosed such revised Operating Rules through DTCC's website (the designated page for DDRJ).

In addition to the above change, this document contains some additions and revisions to the previous document made for further clarification.

3. GENERAL BACKGROUND OF DDRJ

Overview of DDRJ:

G20 leaders reached the global agreement at the Pittsburgh Summits in 2009 that all OTC derivative trade information should be reported to the trade repositories, in order to enhance the transparency of the OTC derivatives market, reduce the systemic risk around the financial market and protect against market abuse. Following the spirit of such agreement, DDRJ was established, on March 8, 2013, as the first trade repository in Japan, designated by the Prime Minister of Japan.

DDRJ provides the service of recording and reporting to JFSA the transaction information submitted from its customers who have the regulatory obligation to record and report the transaction information, with respect to OTC derivatives transactions, which are defined and required by FIEA and its related Cabinet Office Ordinance. The OTC derivatives transactions which are required to be reported in Japan are the ones relating to the underlying asset classes of Rates, Credit, FX and Equities, in accordance with FIEA and its related Cabinet Office Ordinance.

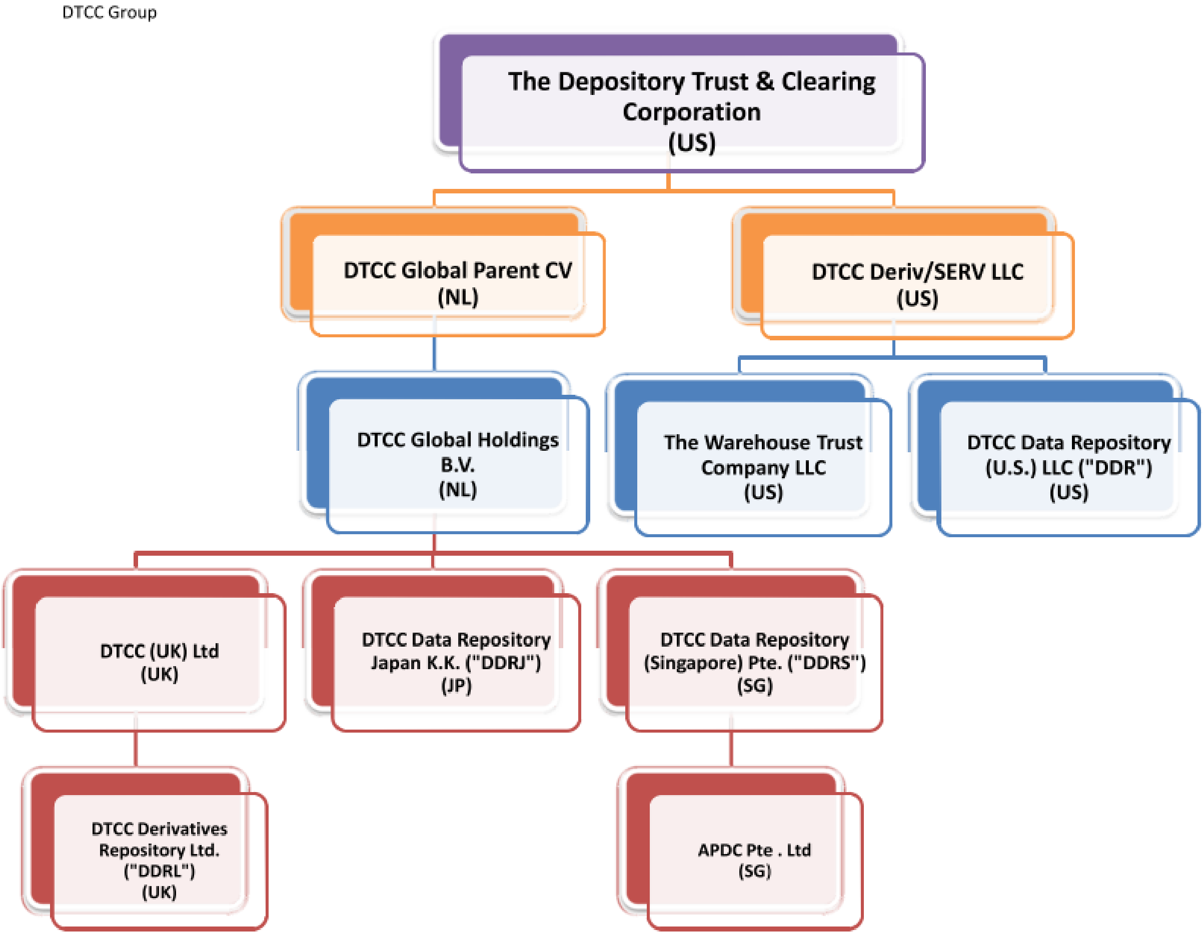
General organization of DDRJ:

DDRJ was established under the Companies Act of Japan, as a wholly-owned subsidiary of DTCC. DTCC is a non-public holding company that owns a number of FMIs, including three systemically important financial market utilities (or "SIFMUs") designated under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank"). DTCC owns The Depository Trust Company ("DTC"), the world's largest central securities depository and a registered clearing agency for the settlement of securities transactions for eligible securities and other financial assets; National Securities Clearing Corporation ("NSCC"), a registered clearing agency which provides central counterparty services with respect to securities transactions in equities, corporate bonds, municipal securities and unit investment trusts in the U.S.; and Fixed Income Clearing Corporation ("FICC"), a registered clearing agency and CCP that operates two divisions, Government Securities Division which provides clearing, netting, settlement and CCP services to the U.S. government securities market, and Mortgage-Backed Securities Division which provides such services to the U. S. mortgage-backed securities market. DTCC, through its subsidiaries and joint ventures, provides critical information and transactional services, to financial market participants in the United States and globally.

DTCC is owned by the financial institutions that are participants of its registered clearing agency. DTCC's governance arrangements—and those of its trade repository subsidiaries—are designed to promote the safety and efficiency of the market, support the stability of the broader financial system and promote the objectives of its participants.

DTCC's subsidiaries that are relevant to the OTC derivatives business of DTCC are shown in the following chart:[1]

[1] Note: This is not a complete chart of the entire DTCC corporate structure



As an FMT in Japan, DDRJ has established a robust governance structure and a risk management framework, stemming from the DTCC's corporate mission. At the highest level, DDRJ's Board of Directors (the "Board"), currently composed of 2 full-time directors and 3 part-time directors, oversees all of DDRJ's business activities. The Board is also responsible for supervising the internal control framework, including the risk management framework; therefore, the Board is informed of or approves, as the case may be, the framework of internal controls over (a) the comprehensive risk profile and its risk control status, (b) the internal audit plans and related issues and (c) compliance update, as the part of its regular agenda.

DDRJ is the company with the statutory auditor, with the authority and responsibility to supervise the execution of duties by directors and to report results of audits to shareholders. See Principle 2 (Governance) for further details.

<u>Legal and regulatory framework:</u>

DDRJ is the first and only trade repository designated by the Prime Minister of Japan and conducts its business in compliance with FIEA and its related Cabinet Office Ordinance.

Furthermore, DDRJ also conforms to the JFSA's "Comprehensive Guidelines for Supervision of Financial Market Infrastructures." In addition, as a joint-stock company, established in Japan, DDRJ is also governed by the Civil Codes, the Commercial Codes and the Companies Act of Japan.

In accordance with FIEA and its related Cabinet Officer Ordinance, the Prime Minister of Japan approved the DDRJ's Operating Rules and the outsourcing of certain trade repository operations to its affiliate, as described below.

While DDRJ is subject to the direct regulation and supervision by the JFSA, DDRJ also receives oversight from BOJ in accordance with the objectives prescribed in the Bank of Japan Act.

System and operations:

DDRJ outsources certain operations to its affiliate. Specifically, DDRJ outsources its system operations including the necessary development and maintenance work of accepting trade information submitted from its customers and preparing the regulatory reports to the JFSA. DDRJ established supervision of outsourced functions, for example, by holding regular status meetings with the relevant departments and functions of the service provider, pursuant to the outsourcing agreement.

4. Principle-by-Principle Summary Narrative Disclosure

Principle 1: Legal Basis
An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

Key Consideration 1:
The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions.

DDRJ's activities are governed by Japanese laws and regulations, including the FIEA, Civil Codes of Japan, Companies Act of Japan, and the "Cabinet Office Ordinance on Regulation of Over-The-Counter Transactions of Derivatives, Etc." etc.

Furthermore, DDRJ is subject to the supervision of the JFSA pursuant to the "Comprehensive Guidelines for Supervision of Financial Market Infrastructures," which covers all aspects of an FMI's business and operations.

The following aspects also demonstrate that DDRJ's activities are ensured to have a high degree of legal basis:

(1) DDRJ was designated as local TR by the JFSA (the Prime Minister of Japan) based upon Article 156-67 of FIEA and its scope of activities was also specifically designated by Article 156-71 of FIEA, and DDRJ operates under the legal framework, that is, FIEA and applicable Guidelines and notices issued by JFSA from time to time,
(2) Section 1 of Article 156-65 of FIEA and its Cabinet Office Ordinance designate the specific details of recordkeeping requirements for TR,
(3) Section 2 of Article 156-65 of FIEA and its Cabinet Office Ordinance designate the specific details of reporting requirements of TR,
(4) DDRJ is also subject to the User Agreement (including the accompanying Operating Procedures referenced therein) to be entered into between DDRJ and its users, as well as, DDRJ's Operating Rules (which set out the summary of framework of operational process and control) which are required document to be approved by the JFSA for the designation of DDRJ as local TR, having been subject to a high level of regulatory scrutiny and designation process by the JFSA for their formulation and revision, governing the activities and conduct of DDRJ and its users.

Key Consideration 2:
An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.

DDRJ's Operating Rules, User Agreement (and the accompanying Operating Procedures) and various other documents to be used for onboarding customers were developed in consultation with the external law firms and the JFSA as part of the application process for the regulatory designation of trade repository in Japan. These documents have been therefore subject to both extensive internal review and external reviews, including the examination by the JFSA. Through this process, DDRJ confirms that these rules and procedures are consistent with the relevant laws and regulations.

Furthermore, these Rules, Procedures, Agreement and various forms are updated on timely basis to reflect the relevant legal and regulatory changes and modifications to the services as well as to respond to the issues raised by industry-wide working groups, through the continuous internal and external legal reviews and consultation with the JFSA.

Specifically, DDRJ's Operating Rules, which describes the operating principles and the important control framework, is required to be approved by the JFSA pursuant to Article 156-74 of FIEA in advance of business operation and any changes to the Operating Rules to be made.

Key Consideration 3:
An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.

DDRJ has engaged in a significant industry outreach effort to explain to the existing and potential users regarding legal basis of DDRJ's activities, DDRJ's Operating Rules and Procedures and User Agreement, in the form of industry working groups and review and individual client outreach.

Also, Operating Rules, Operating Procedures and User Agreement are posted at DTCC's website, and any changes to DDRJ Operating Procedures, etc., are notified to all customers and are also published as an Important Notice at DTCC's website. Changes to Operating Rules and Operating Procedures are also subject to DDRJ's Board approval.

Key Consideration 4:
An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.

As DDRJ conducts its business in Japan, the User Agreement and DDRJ's Operating Procedures are governed by the Japanese laws and require DDRJ and its customers to agree to be subject to the exclusive jurisdiction of the Tokyo District Court (except for a limited number of existing customers who already opted for the law of the State of New York in the past), and both the Japanese laws and the laws of the State of New York provide the well-respected legal jurisdictions that offer a high degree of legal foreseeability and certainty.

The User Agreement and DDRJ's Operating Procedures also require the customers to represent that (a) each customer has the power and authority to perform its obligations, (b) its agreement with DDRJ is valid, binding and enforceable, and (c) access to the system which enables DDRJ to provide the service to customers does not violate any applicable laws.

DDRJ believes that DDRJ's Operating Rules, User Agreement (and the accompanying Operating Procedures) and various other documents to be used for onboarding customers are fully enforceable and explicit, for these documents were developed through comprehensive and extensive reviews by the various types of stakeholders including but not limited to the internal councils, external law firms, the JFSA, industry groups, and even the customers.

Since the inception of DDRJ's business, there have been no cases where the courts stated that any of DDRJ's activities, contracts and arrangements under its Rules and Procedures was unenforceable.

Key Consideration 5:
An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.

DDRJ continuously makes its best efforts in identifying and analyzing the potential conflict-of- law issues based upon the latest information available from the customers, external law firms, and regulatory bodies, including the JFSA.

DDRJ considers that the risk which could arise from the potential conflict-of- law issues among the multiple jurisdictions is kept at a minimum level by the following factors:

(1) The territorial scope of DDRJ's activities is limited to Japan,
(2) The governing law of Operating Rules applicable to DDRJ and all users is designated to be Japanese laws,
(3) Users are limited to the Financial Instruments Business Operators, etc. located in Japan,
(4) There is no possibility for DDRJ to be involved in the conflict-of -law issues among the multiple jurisdictions associated with the clearing, settlement and collateral liquidation of the

trade itself, due to the nature of DDRJ's trade repository business.

Principle 2: Governance
An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

Key Consideration 1:
An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.

G20 leaders reached the global agreement at the Pittsburgh Summits in 2009 that all OTC derivative trade information should be reported to the trade repositories, in order to enhance the transparency of the OTC derivatives market and to reduce the systemic risk around the financial market.

In line with such global commitment, FIEA was revised in Japan to add the relevant clauses of Articles 156-63-84.In accordance with such revised FIEA, DDRJ was established in Japan as a company expressly set up to serve as a Trade Repository for the OTC derivatives data to facilitate regulatory reporting and oversight of the OTC derivatives market. It was designated as the first Trade Repository in Japan.

The detailed requirements of the Trade Repository are specifically stipulated in FIEA and its related Cabinet Office Ordinance, and DDRJ operates its business in accordance with such requirements.

Internal policies of DDRJ which define the governance arrangements and management policies of DDRJ as the Trade Repository also articulate its business purpose and mission, in line with the spirit of the above mentioned law and regulations.

More specifically, explicit purpose of DDRJ for having been designated by the JFSA as the Trade Repository is to contribute to the stability of the financial market through the enhancement of the transparency of the OTC derivative transaction market, and DDRJ's directors and employees are required to conduct business and operation pursuant to this corporate mission.

Additionally, issues around safety and efficiency of the financial system are not only presented and discussed at the DDRJ Board but also escalated, where appropriate, to the Board and relevant internal committees within DTCC group; consequently, such issue will reflected onto the DDRJ's business plan as it will become the agenda for the DTCC group.

Key Consideration 2:
An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.

DDRJ is established as a joint-stock company under the Companies Act of Japan and is one of the subsidiaries of DTCC which is the U.S. corporation and an ultimate parent company of DDRJ.

DDRJ is subject to the supervision of the JFSA in accordance with FIEA, and DDRJ's Articles of Incorporation, which set out fundamental governance arrangements, are ensured to have the consistency with the detailed governance requirements for TR provided in the Companies Act of Japan, FIEA, the "Cabinet Office Ordinance on Regulation of Over-The-Counter Transactions of Derivatives, Etc.", the "Comprehensive Guidelines for Supervision of Financial Market Infrastructures," and other laws and regulations.

DDRJ's Board of Directors is composed of five directors, namely 1 Chairman & Representative Director, 1 President & Representative Director, and 3 Directors elected from the senior management of DTCC in accordance with the relevant laws and guidelines in addition to internal policies and procedures. DDRJ's Board makes decisions on DDRJ business activities according to its resolutions, nominates the executive director to execute such activities, and supervises the propriety of such executive director's performance of duties.

Some of DDRJ's Board members elected from DTCC's senior management team also make the reporting, when deemed necessary, to the Board of DTCC which is established and owned by the market participants and is the holding company of several FMIs.

Also, DDRJ is the company with the statutory auditor with its authority and responsibility under the Companies Act of Japan to supervise the execution of duties by directors and to report results of audits to the shareholders.

DDRJ's User Agreement, Operating Rules and Operating Procedures establish the contractual relationship and obligations with the customers and important matters related to any changes to such documents are also available at the relevant Important Notices section of DTCC's website.

Key Consideration 3:
The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its function, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.

DDRJ's Board of Directors oversees all of DDRJ's business activities and has an ultimate management responsibility and accountability to explain the status to its shareholders. The main duties and authority of the Board of Directors and the procedures for the Board meetings are prescribed in the Companies Act of Japan, Articles of Incorporation, and DDRJ's Charter of the Board of Directors.

The main duties of the Board of Directors include approval of the following:

- High-level management policies, strategies, and objectives of DDRJ, including the business plan;
- Annual budgets and investment proposals;
- Internal control framework to secure the adequacy of internal procedures, risk management, financial reporting, and compliance and oversee any outsourced activities;
- Appointment and dismissal of the Representative Directors.

The Companies Act of Japan provides for managing conflicts of interest between the Board of Directors and individual directors by requiring the disclosure of material facts to and approval from the Board in cases where a director seeks to engage in transactions competing against DDRJ's business, or which would result in a conflict of interest.

Statutory Auditor is obligated by the Companies Act of Japan to report to the Board of Directors, without delay, illegal actions, violations of laws, regulations, or the Articles of Incorporation, or significantly inappropriate facts in relation to the duties of directors, as well as report the results of their investigations to the general shareholders meeting. Statutory Auditor also prepares the Statutory Auditor`s annual audit review result statement which also includes its investigation result on transactions by directors involving conflicts of interest.

Furthermore, the Companies Act of Japan stipulates provisions prohibiting a director with a special interest in a subject matter from voting on such matter.

The specific procedures for management of Conflict of Interest are set out in the various internal policies and procedures, in particular, the DDRJ Conflict of Interest Resolution Policy and the DDRJ Code of Ethics, which are reviewed on necessary basis.

DDRJ does not employ any sub-committee structure under the Board of Directors.

Qualification standards to be elected as directors of DDRJ are specified in the FIEA and DDRJ's Charter of the Board of Directors, and evaluation standards and procedures of the performance of the Board including each director are also set out in the DDRJ's Charter of the Board of Directors. The annual evaluations are conducted.

Moreover, shareholders are able to monitor the performance of the Board of Directors through the business report submitted to the general shareholders meeting, which contains information on achievement of the business plan and financial results.

Key Consideration 4:
The board should contain suitable members with the appropriate skills and incentives to fulfill its multiple roles. This typically requires the inclusion of non-executive board member(s).

FIEA requires that a TR's personnel be composed of individuals that "have sufficient knowledge and experience for conducting the trade repository services appropriately and certainly, and have sufficient social credibility." Accordingly, the nominations to the DDRJ's Board of Directors were made under such requirements and subsequently reported to JFSA.

Specifically, DDRJ appoints the board members who have a broad range of relevant experience in the financial markets, industry knowledge and management skill, including the persons who constitute the members of the senior executive management team and have been appointed as the directors of DTCC or one of its subsidiaries.

In addition, DDRJ's Directors are responsible for contributing to the development of the financial markets by developing the trade repository services as one of the important business for DTCC group.

Moreover, although DDRJ does not appoint external board member, DDRJ's statutory auditor functions as the independent check-and balance system, and, DTCC, DDRJ's ultimate parent company, constitutes its Board by several external board members; thus, DTCC group as a whole effectively receives the valuable inputs and oversight from independent external board members and such valuable inputs and oversight are also reflected in the management and governance of DDRJ.

Key Consideration 5:
The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.

DDRJ's management team assumes the management responsibility for the overall operation of the DDRJ's business, and engages in the daily operation of the business by instructing and supervising the managers and staff of relevant departments.

DDRJ's management team's responsibility is also specifically described in the relevant internal governance arrangements and management policies and DDRJ' management also takes part in the DTCC enterprise wide goal setting and evaluation process.

DDRJ follows the DTCC Human Resources Department policies on the selection of its senior management and also prepares its talent development program and succession planning program, according to the DTCC Human Resources Department policies.

With regard to hiring and selection of the senior level positions of DDRJ's management, senior management members of DTCC and selected DDRJ's Board members shall be involved in such selection process.

Also, DDRJ has confirmed that its senior management meets the qualifications required by the Companies Act of Japan and FIEA. DDRJ's senior management has the diverse management and control experiences and profound knowledge across the banking business, securities broker/dealers, settlement and clearing of the transactions and data repository as well as risk management and information technology.

DDRJ's Board of Directors has the authority to seek a general shareholders meeting resolution to initiate the dismissal of any director failing to fulfill their duties or otherwise bringing DDRJ into disrepute, pursuant to procedures specified in the Companies Act of Japan.

Key Consideration 6:
The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.

DDRJ's Board of Directors follows DTCC's basic risk management policies for identifying and handling the risks DDRJ is exposed to.

DDRJ's Board has also prepared a comprehensive risk management structure to ensure compliance with such risk management policies. With its framework, DDRJ's Board receives regular reports on the status of compliance and can take appropriate measures as necessary. See Principle 3 (Framework for the Comprehensive Management of Risks) for further details.

Furthermore, the Board of the DDRJ's affiliate within DTCC group which provides global trade repository services to the affiliates including DDRJ through outsourcing arrangements is responsible for approving the Risk Tolerance Statement regarding over-all risk status, such as the key risks and their impacts on all TR entities within the DTCC group.

Based upon such framework, DDRJ's Board has given DDRJ's management (specifically Representative Director and President) the responsibility for the day-to day management of these risks.

Additionally, DDRJ's management utilizes the DDRJ Risk Profile which displays the metrics around risk targets and actual performance to review, assess, and manage the risks of business operation and to meet the regulator's expectation on the standards of risk management.

DDRJ's Board ensures to set the above DDRJ Risk Profile as the standing agenda for the meeting. This arrangement comes from the understanding that it is certainly DDRJ's management that has the responsibility for identifying, managing and mitigating the risks and it is the responsibility of the DDRJ's Board to supervise the effectiveness of such risk management activities.

DDRJ's Board has the authority to investigate and examine the status of risk management, if it deems necessary. DDRJ's Board is responsible for reviewing, approving and re-evaluating DDRJ's risk profile and the effectiveness of risk management framework and control measures.

Furthermore, Internal Audit is tasked to conduct an independent and objective review on the risks and its control environment of DTCC and its subsidiaries to understand the impact and level of risks and to ensure that the necessary measures to mitigate risks are implemented. To achieve such missions, Internal Audit has the established mechanism to review the effectiveness of the internal control system and its associated process and documentation and report the result to DDRJ's Board.

For reference, Internal Audit of DDRJ functions as a part of the global DTCC's Internal Audit team and effectively leverages DTCC's broader Internal Audit team to conduct the assessment.

Also, DDRJ has appointed the Statutory Auditor that has the authority to directly report to DDRJ's Board, if necessary, as an independent check-an-balance system.

Key Consideration 7:
The board should ensure that the FMI's design, rules, overall strategy, and major decisions

reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.

DDRJ actively engages in the industry discussions and conducts regular discussions with its regulator to ensure to meet the request from customers especially relating to regulatory requirements.

DDRJ management conducts the frequent and regular meetings with the JFSA, and ensures the environment for smooth and frequent communications with its users.

DDRJ's Board escalates, as required, the material matters impacting on DTCC group to the senior management and relevant functions of DTCC group.

Any important matters which could impact DDRJ's customers are published, through DTCC website, to the customers by an Important Notice, and matter which DDRJ's Board deems necessary is also publicly disclosed and reported to the relevant regulators, depending upon their materiality.

Principle 3: Framework for the Comprehensive Management of Risks
An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

Key Consideration 1:
An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.

The purpose of DDRJ for having been designated by the JFSA as the Trade Repository is to contribute to the stability of the financial market through the enhancement of the transparency of OTC derivative market and accordingly, DDRJ is responsible for comprehensively managing the various types of risks DDRJ is exposed to.

The risk management framework of DDRJ provides a conceptual structure and DDRJ identifies two major risk categories applicable to DDRJ's business operations:

- Operational Risk which includes the following sub-components :
  - ✓ Financial Reporting & Control Risk
  - ✓ Legal & Regulatory Compliance Risk
  - ✓ Processing & Operations Continuity Risk
  - ✓ Information Technology & Security Risk
  - ✓ Business Continuity Management Risk
  - ✓ Human Capital / People Risk

- Strategic Risk which includes the following sub-components:
  - ✓ General Business Risk
  - ✓ New Initiatives Risk

Additionally, in light of the fact that DDRJ outsources a part of its operation to its affiliated company, DDRJ understands that effective and sufficient governance over the services provided by the service providers is the critically important for managing business and risk. Hence, DDRJ management establishes the governance and oversight framework over the quality of the services provided by such affiliated company which provides the services to DDRJ.

Also, the Business Risk Manager prepares the DDRJ Risk Profile and reviews with DDRJ's management on regular basis.

Policies and procedures which relate to risk management, adopted by DTCC and also applicable to DDRJ are reviewed and updated as required, when relevant regulations or procedures are changed and updated.

Key Consideration 2:
An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.

Due to the nature of DDRJ's business as trade repository, DDRJ is not exposed to credit, market or liquidity risk on their daily business; however, DDRJ recognizes the operational risk including the risk that may be exposed by the customers and the strategic risk.

As for the operational risk that may be exposed by the customers, DDRJ's Operating Rules and Operating Procedures clearly set out the circumstances under which the customers may be denied access to DDRJ's trade repository services or may be penalized by way of termination, suspension, levying a fine, etc., for their actions. Such circumstances include the cases where the customer's account or IT system is deemed to cause material harm to the normal operation of the DDRJ's system.

Key Consideration 3:
An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.

In light of the fact that DDRJ outsources a part of its operation to its affiliated company, DDRJ understands that effective and sufficient governance over the services provided by the service providers is the critically important for managing business and risk. Hence, DDRJ management establishes the governance and oversight framework over the quality of the services provided by such affiliated company by holding the periodic meetings with the relevant departments of such affiliated company which provides the services to DDRJ.

DDRJ is operating trade repository service only; therefore, DDRJ is not exposed to credit risk, market risk and liquidity risk as a result of the inter-dependencies with other legal entities.

Key Consideration 4:
An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.

The assumed scenario to terminate or wind down the trade repository business might stem form the extremely low profitability or difficulty to develop and expand the business or loss of registration; thus, the management decision would conclude that DDRJ must cease to provide trade repository business in Japan.

To be more specific, the following situations could be considered:

- ✓ OTC derivatives trading volume in the jurisdiction reduces far beyond the expectation which causes the significant reduction of the fees income;
- ✓ Competition with other trade repositories reduces DDRJ's market share far below the level to sustain the business;
- ✓ Operating expenses, e.g. regulatory compliance costs, grows to an extent where the expenses incurred to maintain its business operation can not be commercially justifiable; and
- ✓ Unanticipated expenses, e.g. regulatory fines, legal liability.

DDRJ makes every possible effort to minimize the possibility of the situation to occur where DDRJ must terminate the trade repository business. However, if the events where DDRJ has no other options but needs to cease or wind down the business occurs, DDRJ shall ensure to comply with the requirement of obtaining approval from the JFSA in advance which is set forth at FIEA and any other requirements set forth at Companies Act of Japan and its own Articles of Incorporation, and shall also manage the situations properly and orderly in good and close coordination with the regulators and relevant stakeholders, including the transfer of trade data to the JFSA or another registered trade repository or back to the customer.

<u>Principle 4: Credit Risk</u>
An FMI should effectively measure, monitor, and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain, at a minimum, total financial resources sufficient to cover the default of the one participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions.

This Principle is not applicable to DDRJ, because DDRJ conducts trade repository service only.

<u>Principle 5: Collateral</u>
An FMI that requires collateral to manage its or its participant's credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

This Principle is not applicable to DDRJ, because DDRJ conducts trade repository service only.

<u>Principle 6: Margin</u>
A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

This Principle is not applicable to DDRJ, because DDRJ conducts trade repository service only.

<u>Principle 7: Liquidity Risk</u>
An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

This Principle is not applicable to DDRJ, because DDRJ conducts trade repository service only.

<u>Principle 8: Settlement Finality</u>
An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

This Principle is not applicable to DDRJ, because DDRJ conducts trade repository service only.

Principle 9: Money Settlements
An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimize and strictly control the credit and liquidity risk arising from the use of commercial bank money.

This Principle is not applicable to DDRJ, because DDRJ conducts trade repository service only.

Principle 10: Physical Deliveries
An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

This Principle is not applicable to DDRJ, because DDRJ conducts trade repository service only.

Principle 11: Central Securities Depositories
A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimize and manage the risk associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilized or dematerialized form for their transfer by book entry.

This Principle is not applicable to DDRJ, because DDRJ conducts trade repository service only.

Principle 12: Exchange-of-Value Settlement Systems
If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transaction), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

This Principle is not applicable to DDRJ, because DDRJ conducts trade repository service only.

Principle 13: Participant-Default Rules and Procedures
An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

This Principle is not applicable to DDRJ, because DDRJ conducts trade repository service only.

Principle 14: Segregation and Portability
A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.

This Principle is not applicable to DDRJ, because DDRJ conducts trade repository service only.

Principle 15: General Business Risk
An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialize. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

Key Consideration 1:
An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.

DTCC considers general business risks to include potential impairment to DDRJ's financial position that results in a loss that would be charged against capital. The potential for impairment could be affected by a variety of factors, including, but not limited to, an unexpected downturn in business volumes or in the economic cycle; external market events and trends; competitive forces, such as competitor's entry that causes margins to erode; changes in regulatory requirements that impact DDRJ and/or DDRJ's users; and unexpectedly large operating expenses.

In addition to monitoring and managing the execution of business plan and financial conditions, DTCC and its subsidiaries, including DDRJ, continuously monitor operational risk including IT system risk and investment risk on a monthly basis based upon the comprehensive risk management framework outlined in Principle 3 (Framework for the Comprehensive Management of Risks).

Key Consideration 2:
An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery of orderly wind-down, as appropriate, of its critical operations and services if such action is taken.

DDRJ is not exposed to credit risk and market risk incurred from the settlement and clearing of the transactions, for DDRJ conducts trade repository business only.

Nonetheless, DDRJ's management ensures to maintain the capital amount for at least six months worth of operating expenditures (after excluding depreciation expenses) and secures all of capital amount in the form of cash, which is most liquid instrument, in order to meet the requirements set out in the "Comprehensive Guidelines for Supervision of Financial Market Infrastructures (VI-2-1: Adequacy of Capital)" and FMI Principles. Furthermore, DDRJ is in coordination with its affiliates and DTCC as the ultimate parent company to arrange the inter-company loans to provide liquidity under emergency.

Also, DDRJ has established the control framework for monitoring financial conditions on regular basis to examine the adequacy of capital amount in relation to the trend of operating expenses. The framework is already built for capital infusion from its parent company, if it deems necessary, under the comprehensive risk management framework outlined in Principle 3 (Framework for the Comprehensive Management of Risks).

Key Consideration 3:
An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.

If DDRJ needs to voluntarily suspend or terminate its business operation in Japan, DDRJ is fully committed to establish the framework to assure the smooth transfer of the business from operational, technical and legal perspectives through closely coordinating with regulators, customers, and industry groups, in addition to meeting the regulatory requirement of obtaining the advance approval for such voluntary business suspension and termination from the JFSA.

DDRJ takes the potential business risk components into the consideration of budget plan of the capital amount and periodically assesses the level of capital amount.

Please also refer to the explanations made at Key Consideration 2 for Principle 15 and at Key Consideration 4 for Principle 3 above.

Key Consideration 4:
Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet it's current and projected operating expenses under a range of scenarios, including in adverse market conditions.

DDRJ is currently holding its liquid net assets funded by equity in the form of cash; therefore, there would be no need for conversion. In the case DDRJ would invest cash; it would be in highly liquid instruments only, which would result in minimal risk of losses in times of distress.

Key Consideration 5:
An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.

DDRJ's capital planning process is included in the strategic capital planning process of DTCC group as a whole. Such capital plan is prepared in consideration of the required capital amount assessed from the perspectives of regulatory requirement, economy and corporate strategy, as well as capital policy, and it is discussed at the relevant groups within DTCC and its subsidiaries.

In conjunction with DTCC's Finance Division, DDRJ also assesses the capital adequacy by continuously monitoring the estimated business risk and the planned and actual financial results and by referring to the adequacies of the capital and liquidity described in the JFSA's "Comprehensive Guidelines for Supervision of Financial Market Infrastructures."

The approval for additional capital infusion or repatriating capital to the shareholders needs to be resolved at DDRJ/s Board and Shareholders Meeting, while the approval from the relevant committees of DTCC's is also required.

Principle 16: Custody and Investment Risks
An FMI should safeguard its own and its participants' assets and minimize the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

This Principle is not applicable to DDRJ, because DDRJ conducts trade repository service only.

Principle 17: Operational Risk
An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfillment of the FMI's obligations, including in the event of a wide-scale or major disruption.

Key Consideration 1:
An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.

As already explained at Key Consideration 4 for Principle 3, DTCC's fundamental approach to risk management reflected in the risk management framework of DTCC group as a whole is a process in which risks of the types listed in the framework are assessed on an inherent basis (that is, risk exposure in the absence of any mitigating controls) and then assessed and monitored against the strength of the existing or additional controls to be implemented.

Operational Risk Management

Operational risk is the potential for loss resulting from inadequate or failed processes, people and systems or from external events. It may also result in DDRJ's failure to meet the business objectives and/or its obligations to its customers and regulators.

Under the operational risk management framework of DTCC group to which DDRJ belongs to, the following set of categories is employed for the classification and management of the operational risk:

- ✓ Financial Reporting & Control Risk
- ✓ Legal & Regulatory Compliance Risk
- ✓ Processing & Operations Continuity Risk
- ✓ Information Technology & Security Risk
- ✓ Business Continuity Management Risk
- ✓ Human Capital / People Risk

The ORM Operational Risk Framework, which has been applied to DDRJ, is comprised of multiple elements, including:

- ✓ Incident Data Collection & Analysis
- ✓ Risk Assessment – Operational Risk Profile
- ✓ Metrics
- ✓ Reporting
- ✓ Risk Acceptance
- ✓ Scenario Analysis
- ✓ Lessons Learned
- ✓ New Initiative Approval Process
- ✓ Vendor Risk Management

DDRJ has implemented the Risk Profile, which shows the summary of the risk status, key risk drivers, risk assessments and the trend analysis.

DDRJ has adopted the DTCC's three lines of defense framework to effectively identify, mitigate and monitor the risks.

- The first line of defense is the business, functional units and the business risk managers who work closely within the business to manage and identify risks which arise in the day to day operation of the business.
- The second line of defense is comprised of the control functions, including Operational Risk Management, the Compliance Department, Technology Risk Management, Privacy, and Business Continuity Management. Their mandate is to establish standards for risk management for DDRJ, to provide advice and guidance to the first line defense in adhering to the standards and to monitor compliance with such standards.
- The third line of defense is the Internal Audit Department. Its mission is to provide independent, objective assurance and advisory services to assist DDRJ in maintaining an effective system of internal controls, including the manner in which the first and second lines of defense operate.

The frequency of audit projects performed by DTCC's Internal Audit Department ranges from 1 year to 5 years based upon annual assessments of the inherent risk and the related control environment rating.

The Internal Audit Department factors key risks into developing its annual audit plan. In addition, the Internal Audit Department regularly monitors the business key metrics to understand the changes in the business environment and has the authority to perform ad hoc audit when needed.

The Compliance Department, which belongs to second line of defense, also assesses and tests the design and effectiveness of controls, as required.

In addition, the Business Risk Manager of DDRJ, through consultation with Operational Risk Management, leads in developing plans to address and remediate the risks upon identifying sources of such risks and prioritizing them.

DTCC's framework for Operational Risk Management encompasses recommendations and guidance introduced by the Basel Operational Risk Standards and by CPSS-IOSCO, by incorporating them into the methodology and tools used by the Operational Risk Management Department to identify, assess, monitor, escalate and report operational risks, and such methodology and tools are also adopted by DDRJ.

Framework to Secure Appropriate Personnel and to Develop the Risk Management Capability

In order to properly operate trade repository business, DDRJ continuously strives to secure sufficient human resources with the ability to do so.

DDRJ employees are given access to a range of internal and external learning program to develop the risk management capabilities and other professional skills and to deepen the business or functional knowledge.

DDRJ adheres to the DTCC's Code of Conduct and DDRJ Code of Ethics which set out the appropriate behaviors of the employees including prohibition of fraudulent conduct.

Key Consideration 2:
An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk-management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.

Whereas DDRJ's management is responsible for identifying, managing and mitigating risks by implementing effective controls as appropriate, DDRJ's Board carries oversight responsibility of the risk management and utilizes DDRJ's Risk Profile to review, and re-assess the risk management and control effectiveness as the material for standing agenda at the quarterly meetings.

Key Consideration 3:
An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.

DDRJ uses a number of key performance and risk indicators to track the status of operational risk management. DDRJ's Risk Profile reflects those indicators relating to General Business Risk, New Initiatives Risk, Process Risk, Technology Risk, IT Security Risk, Legal and Regulatory Compliance Risk and Human Capital Risk, and continuously keeps tracking the status of indicators and their actual results.

DDRJ assesses the operational reliability of the business by comprehensively capturing the actual results of the respective key indicators, and also reviews the status of outsourcing through the periodic meetings with the relevant departments of the service providers as part of the governance process for the outsourcing management.

During the periodic meetings with the service providers, DDRJ's management reviews the risks the relevant business and control functions currently face, the trend of the key risk indicators and their results, the details of significant incidents including root-cause analysis, the current status of the control against key risk drivers, any major changes to internal and external environments, and any other status changes occurred since the last review, in order to assess the needs to revisit the existing risk tolerance statement.

Key Consideration 4:
An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.

DDRJ follows the robust control framework at DTCC level for the review and analysis of capacity plans, demands, performance records, and maximum performance capacity under stress scenario.

This control framework includes daily, weekly, monthly and annual review of the metrics based on projected business volumes.

Specifically, the responsible departments monitors the volumes processed against the metrics agreed with relevant departments. Such metrics includes memory capacity, disk storage and CPU utilization capacity. Program is built in to trigger the re-assessment of anticipated maximum business volumes when necessary.

These review and analysis are also included as the control items within the control framework for the outsourcing management and discussed during the regular meetings.

Key Consideration 5:
An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.

DDRJ participates in the robust control framework at DTCC level for identifying and dealing with the vulnerabilities. Under such control framework, Global Security Management (GSM) conducts the on-site assessment of all critical facilities and performs internal review of alternative operating facility. Internal control framework and relevant procedures are adjusted accordingly when any need for improvement is identified.

Relevant departments of DTCC are responsible for monitoring physical security standards required or recommended by the local regulatory authorities and the international organizations. Accordingly, the internal procedures and guidelines are adopted to satisfy the required or recommended standards, if not directly applicable to Trade Repository.

DDRJ follows information security policies and procedures adopted by DTCC group level. There is a comprehensive vulnerability detection program that covers IT platform vulnerabilities.

Also, a comprehensive program which can detect, prevent and manage any external threats into the internal IT system platform is also established and maintained by DTCC group as a whole.

DTCC’s internal policies relating to the information security in IT system platforms satisfy the certification criteria of ISO 27001/27002 standards.

Key Consideration 6:
An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.

DDRJ's business continuity planning framework leverages the DTCC's business continuity planning framework and its control process as a whole.

DTCC maintains the necessary facilities, personnel, and processes at all times to allow it to provide continuity of critical technologies and operational functions (i.e., either continued operation or the recovery and resumption of such functions within regulatory stipulated timeframes). Additionally, DDRJ maintains a DDRJ specific business continuity plan to allow all critical technology and operations to be carried out in the case of a business continuity event.

DDRJ's business continuity plan includes:

- Identification of key applications and required resumption times
- Critical staff dispersion and alternative work arrangements in the event premises at any location are not accessible (e.g. work at home, work at alternative sites)
- Contacts list and call trees which include the information of staff, external vendors, service providers and regulatory authorities
- Responding and management processes under emergency situation

DDRJ's business continuity plan will be modified and updated to reflect any changes to key processes, functions or staff, and will be approved by DDRJ's management on an annual basis.

DDRJ's business continuity planning framework is created in line with the DTCC's business continuity planning framework, and its target recovery time for key applications is four- hours. This target recovery time is not deemed to create significant negative impact on the financial markets, as DDRJ does not conduct any clearing and settlement functions.

Key Consideration 7:
An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.

DDRJ operates as a trade repository which stores and reports the trade information. If there were operational failure in the relevant process of the specific customers, there would be the potential risk that the trade information of those customers would not be included or would be relayed in reporting into DDRJ and ultimately to the JFSA.

DDRJ does not provide any clearing and settlement services; thus, DDRJ is not impacted by the failure in the areas of clearing and settlement services.

As for the risk of operational disruption posed by utility and service providers, DDRJ operates trade repository business under the DTCC group which has a robust vendor selection process, uses public utility vendors who are highly reputable in their markets and which have alternative providers. In addition, DTCC operates multiple data centers around the world which offer redundancy. Thus, such risk is mitigated by the Operational Risk and Business Continuity measures described above to a reasonable extent.

In addition, in case of disruptions of local utility services, emergency backups are in place for electricity and water supply and multiple providers are engaged for telecommunications and internet services disruption risk.

Furthermore, DDRJ outsources a part of the trade repository function to the affiliate. Such outsourcing arrangement was approved by the JFSA in accordance with the specific clause of FIEA. In order to fulfill the oversight responsibility, DDRJ monitors the quality of the services provided, for example, through the periodic meetings with the relevant departments of service providers.

DDRJ conducts trade repository business only; thus, there would be no risk to negatively impact on or affect other FMIs in the event DDRJ could not perform its own function.

Also, DDRJ conducts trade repository business only; thus, there is no need identified for establishing the framework of coordination and corporation with other FMIs at the specific and detailed level.

Principle 18: Access and Participation Requirements
An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

Key Consideration 1:
An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.

Only the Financial Instruments Business Operators ("FIBO") and other qualified financial institutions are the users of DDRJ; however, the following requirements must be met for such FIBO and others to onboard and start using the services provided by DDRJ:

- ✓ Signing off DDRJ's User Agreement
- ✓ Compliance with DDRJ's Operating Procedures
- ✓ Compliance with DDRJ's Operating Rules
- ✓ Compliance with relevant KYC requirement and regulations for prevention of money laundering and terrorist financing. etc., including US OFAC regulations or prohibition against trade with the parties listed as being sanctioned for asset freeze
- ✓ Completion and submission of relevant forms designated by DDRJ relating to compliance with technical interface requirement, required to provide access to DDRJ's reporting system
- ✓ Compliance with the information security requirement
- ✓ Payment of fees to be charged

These requirements above are rationally aligned with the natures and risks of DDRJ's business and its users' attributes; therefore, they set out the minimum and sufficient level of criteria without imposing excessive restrictions, in order to ensure the safety and efficiency of the trade repository service. These requirements are publicly available at DTCC's website.

Key Consideration 2:
An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavor to set requirements that have the least restrictive impact on access that circumstances permit.

The qualifications for DDRJ's customers are limited to the financial institutions defined by Article 156-64 of FIEA and its relevant Cabinet Office Ordinance, including the Financial Instruments Business Operators and they are legally obligated to report the OTC derivative transactions.

Also, all DDRJ's customers are required to satisfy the standards relating to technical interface requirement and information security requirement, pursuant to the obligation set forth in the DDRJ 's User Agreement and Operating Procedures.

The customers can designate the third party entities which submit the trade records on behalf of the customers and these entities are also subject to the same set of standards and requirements as stated above.

Furthermore, as explained at Key Consideration 1 above, DDRJ requires the compliance with the relevant clauses in DDRJ's User Agreement designated for opening the account and the regulations related to name screening for prevention of money laundering, etc., as the preconditions for using its service, and such requirements are rationally aligned with the natures and risks of DDRJ's business and its users' attributes, thus, set out the minimum and sufficient level of criteria without imposing excessive restrictions, in terms of making sure the safety and efficiency of the trade repository service.

Relevant clauses of DDRJ's User Agreement and Operating Procedures are modified and updated to reflect any changes to legal and regulatory environment as well as market environment. Such modifications also take the review of relevant risk and technical standards related to the users' requirements into consideration and will become applicable equally to all the users.

Also, DDRJ's User Agreement and Operating Procedures which define such requirements are provided to all customers and potential customers upon request.

DDRJ's Operating Rules and Operating Procedures are posted at DTCC's website, and any changes to such documents are published by an Important Notice at DTCC's website and notified to all customers by other means in advance of such changes.

Key Consideration 3:
An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.

DDRJ's Operating Procedures explicitly state that DDRJ retains excusive control and ownership of the system and services provided by DDRJ.

Also, DDRJ's Operating Procedures clearly define the details of expulsion procedures and disciplinary procedures including the right of appeal.

DDRJ's Operating Procedures which define such requirements are provided to all customers as well as potential customers upon request.

DDRJ's Operating Procedures are posted at DTCC's website together with User Agreement, and any changes to DDRJ Operating Procedures and other documents are published by an Important Notice at DTCC's website and notified to all customers by other means in advance of such changes.

Principle 19: Tiered Participation Requirements
An FMI should be reviewed in the context of Principle 14 on segregation and portability, Principle 18 on access and participation requirements, and other principles, as appropriate.

In Japan, there is no regulatory framework of tiered participation for the trade repository; thus, this Principle is not applicable to DDRJ.

Principle 20: FMI Links
An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

DDRJ conducts trade repository business only and CCP must directly report the centrally cleared trade information to the JFSA under the local regulatory framework. Further, there is no link with other FMIs; thus, this Principle is not applicable to DDRJ.

Principle 21: Efficiency and Effectiveness
An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

Key Consideration 1:
An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products clearing, settled, order recorded; and use of technology and procedures.

DTCC is the ultimate parent company of DDRJ. DTCC is a non-public holding company that owns a number of FMIs in the United States. DTCC is owned by the financial institutions who are the participants of the financial markets and also the users of its services.

Also, DDRJ operates its business as an FMI based upon the conviction that DDRJ effectively controls the operating costs and fees shall be changed accordingly to the services provided.

In consideration of the above corporate mission of DTCC, DDRJ's Principles of Governance sets out as follows:

> "DDRJ's responsibilities to those constituencies include:
> - providing a broad range of services to support their financial activities at the lowest reasonable cost,
> - expanding services as necessary to meet constituents' evolving needs to meet the financial activities promptly and efficiently"

Moreover, as an entity supervised by the JFSA, DDRJ established its structure and management including its governance framework driven by its mission to report the trade information to the JFSA on behalf of the customers to satisfy reporting obligation.

Specifically, DDRJ makes every effort to ensure that its development of service and product match the market's need through the following context and processes.

<u>From the perspective of the business goals planning process</u>

DTCC initiates the annual planning and business goals setting for its subsidiaries including the ones operating trade repository business across the jurisdictions, and DDRJ as a member of the DTCC group is included in such process. Such business goals are built through the close coordination and consultation with key stakeholders including but not limited to DTCC's subsidiaries, DTCC's Board, the financial industry, and the regulators.

Furthermore, DDRJ's business goals are prepared and reviewed through the ongoing communications with regulators and financial industry to meet the various regulatory requirements and consequently, approvals are required by DDRJ's Board.

<u>From the perspective of involvement by the customers in product development process</u>

DDRJ ensures customers' involvement in the process for the product development and the improvement of the quality of services by leading and participating in the industry working groups. DDRJ's customers can participate in such working group in order for them to voice their opinions regarding the market and regulatory requirement of the trade reporting.

DDRJ conducts close communications with its regulators regarding its current and future pictures of the regulatory requirements.

Key Consideration 2: **An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum services levels, risk-management expectations, and business priorities.**

DDRJ' corporate goals and objectives, as a member of DTCC group, are to enhance the transparency of OTC derivatives market, reduce the system risk around the financial market and protection against market abuses, based upon the global commitment reached at G20 Pittsburgh Summits in 2009 and to comply with the applicable laws and regulations relating to such agreement.

Business updates including the progress against the business goals and market overview are reported as a standing agenda at DDRJ' Board along with the updates from the risk management, compliance and internal audit.

These status reports of the business and risk management are also shared with DTCC's senior management and kept tracked for DTCC group as a whole.

Key Consideration 3:
An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.

Please refer to the explanation in above.

<u>Principle 22: Communications Procedures and Standards</u>
An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

Key Consideration 1:
An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.

DDRJ supports industry standard of interfaces technologies, i.e., internet, direct interface (direct end to end line). The interface methods are available for all customers.

Additionally, service providers of DDRJ's customers are eligible to use any one or combination of the interface methods. DDRJ's customers need to identify interface method during the onboarding process; however, they can change the interface method throughout its relationship with DDRJ, e.g., selecting a direct line in addition to internet access.

The following list illustrates the available interfaces and associated formats that are supported by DDRJ.

Interface	Type	Format
Direct line	MQ	Financial Product Markup Language (FpML)
Direct line	sFTP/FTP/NDM (push/pull)	Comma Separated Value (CSV)
Direct line	sFTP/FTP/NDM (push/pull)	Financial Product Markup Language (FpML)
Internet	GUI (Upload/Download)	Comma Separated Value (CSV)
Internet	sFTP (push/pull)	Financial Product Markup Language (FpML)
Internet	sFTP (push/pull)	Comma Separated Value (CSV)

Also, DDRJ provides full support for industry standard of the identifiers for financial instruments and counterparties. DDRJ continues working with the industry and regulators for the use of such identifiers.

<u>Principle 23: Disclosure of Rules, Key Procedures, and Market Data</u>
An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be public disclosed.

Key Consideration 1:
An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.

DDRJ' User Agreement, Operating Procedures and Operating Rules comprise the rules and procedures of DDRJ' services and they are applicable to all customers and other relevant parties.

DDRJ' Operating Procedures have been drafted through the extensive discussions and reviews by the experienced and knowledgeable senior members of DTCC group and financial industry as well as the consultations with internal and external lawyers.

DDRJ's User Agreement and Operating Procedures are provided to all customers and potential customers upon request.

DDRJ's Operating Rules, User Agreement and Operating Procedures are posted at DTCC's website, and any changes to such documents are also published by an Important Notice at DTCC's website in addition to the individual notices of such changes to all customers by other means in advance of such changes.

Key Consideration 2:
An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participant's rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.

DDRJ's Operating Procedures contain the rights and obligations of both DDRJ and its customers who use DDRJ's services and system at their own risk.

DDRJ's Operating Procedures are equally applicable to all customers; therefore, no specific customer incurs or is protected from the specific risk more than any other customers.

The following documents will provide the detailed information for DDRJ's system design and operations:

- ✓ Technical specifications
- ✓ Business Requirement Documents (These documents are primarily for internal use, but can be shared with the customers)
- ✓ Functional specifications
- ✓ User Guides

The customers have access to these documents via a password protected area of DTCC website, and potential customers who consider using DDRJ's system will be provided with necessary information subject to a confidentiality agreement.

DDRJ's Operating Procedures are posted at DTCC's website, and any changes to DDRJ's Operating Procedures and other documents are also published by an Important Notice at DTCC's website in addition to the individual notices of such changes to all customers by other means in advance of such changes.

Key Consideration 3:
An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.

DDRJ facilitates its customer' understanding of its rules and procedures through the following means:

- ✓ DDRJ' Operating Procedure - delivered to all customers as well as potential customers upon request and posted at DTCC's website.
- ✓ DDRJ's Operating Rules – posted at DTCC's website.
- ✓ User Guide – made available via DTCC website.
- ✓ Specific explanation to be provided to the customers regarding their rights and obligations upon request and escalated to the legal, compliance and management groups as appropriate.
- ✓ Detailed explanation to be provided to the customers regarding the onboarding process and requirements.
- ✓ Participation in industry working group discussions as needed to foster communication and information sharing
- ✓ Explanation and advice to be provided to the potential customers to address any potential lack of understanding.
- ✓ Users' Acceptance Test to be conducted before using the service and system to confirm system operability and users' understanding.

Key Consideration 4:
An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.

Fees Table is posted as the Appendix to DDRJ's Operating Procedures at DTCC website. DDRJ's Operating Procedures including Fees Table are provided to all customers and potential customers upon request in advance of their onboarding. DDRJ's Operating Procedures are also posted at DTCC's website

Additionally, changes to the Fees Table, which requires the approval of DDRJ's Board, will be notified to all customers.

Key Consideration 5:
An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.

This document is DDRJ's disclosure document pursuant to the CPSS-IOSCO "Principles for Financial Market Infrastructures: Disclose Framework and Assessment Methodology." DDRJ will update this disclosure document if there are any material changes to the company or its businesses, and disclose the updated document at a frequency of at least once a year.

The JFSA publishes the OTC derivatives trade data with its nominal amounts by customer segments and by underlying asset classes. Under the current regulatory framework in Japan, except in case where DDRJ is specifically ordered by the JFSA to disclose, DDRJ is not required to disclose data on OTC derivative transaction and thus DDRJ does not publish such data.

Principle 24: Disclosure of Market Data by Trade Repositories
A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.

Key Consideration 1:
A TR should provide data in line with regulatory and industry expectations to relevant authorities and the public, respectively, that is comprehensive and at a level of detail sufficient to enhance market transparency and support other public policy objectives.

As defined by FIEA and its related Cabinet Office Ordinance, DDRJ as a designated trade repository functions to record the OTC derivative transaction data submitted from its customers who have the regulatory obligation and to report the data onto JFSA.

The JFSA publishes the OTC derivatives trade data with its nominal amounts by customer segments and by underlying asset classes. Under the current regulatory framework in Japan, except in case where DDRJ is specifically ordered by the JFSA to disclose, DDRJ is not required to disclose basic data on OTC derivative transaction and thus DDRJ does not publish such data.

Key Consideration 2:
A TR should have effective processes and procedures to provide data to relevant authorities in a timely and appropriate manner to enable them to meet their respective regulatory mandates and legal responsibilities.

When DDRJ commenced trade repository business to provide the OTC derivative trade data to the JFSA, DDRJ together with the relevant departments of the service providers comprehensively checked and reviewed the technical specifications of the system deployed by the JFSA and ensured that the required data were provided.

When any update or change is required to DDRJ's system, DDRJ works with the relevant departments of the service providers to satisfy the new technical specifications.

Key Consideration 3:
A TR should have robust information systems that provide accurate current and historical data. Data should be provided in a timely manner and in a format that permits it to be easily analyzed.

DDRJ built the program in its operating system to validate the required data fields for the JFSA reporting. Even if any error or irregularity occurs, therefore, such error or irregularity can be alerted and detected as the exceptions and fixed properly.

Trade data is prepared and reported to the JFSA, in full compliance with the technical specifications and regulatory requirements defined by the JFSA.

5. List of Publicly available information

The IOSCO Principles for Financial Market Infrastructures http://www.iosco.org/ and http://www/bis.org
Financial Instruments and Exchange Act http://law.e-gov.go.jp/htmldata/S23/S23HO025.html
Cabinet Office Ordinance on Regulation of Over-the-Counter Transactions of Derivatives, etc. http://law.e-gov.go.jp/htmldata/H24/H24F10001000048.html
Comprehensive Guidelines for Supervision of Financial Market Infrastructures http://www/fsa.go.jp/common/law/guide/seisan.pdf
Bank of Japan Act http://law.e-gov.go.jp/htmldata/H09/H09HO089.html
DDRJ' Operating Rules, Operating Procedures, User Agreement, etc. http://www.dtcc.com
DTCC Annual Report http://www.dtcc.com