

Partial Revision of OSE's Rules in Connection with the Expansion of Trading That Is Eligible for Cross Margining at JSCC

As of November 2, 2023

Osaka Exchange, Inc

I. Purpose

Japan Securities Clearing Corporation (JSCC) is planning to add the trading of Interest Rate Futures (3-Month TONA Futures) to the trading that is eligible for Cross Margining, a system to reduce the collateral burden of clearing participants and others by offsetting the risk of the trading of interest rate swaps (IRS) and Japanese Government Bond (JGB) Futures.

In response to this, Osaka Exchange, Inc. (OSE) will partially revise its Clearing and Settlement Regulations, Agreement for Setting up Futures/Options Trading Account, and other related documents to ensure that the Cross Margining of Interest Rate Futures will be handled in the same manner as that of JGB Futures.

II. Outline (* Revised sections are underlined)

Items	Contents	Remarks
1. Scope of Cross Margining	<ul style="list-style-type: none">The scope of Cross Margining, such as the types of trading and margin that are eligible for the system and the entities who may use it, shall be prescribed by JSCC.	<ul style="list-style-type: none">The types of positions that JSCC has designated as eligible for Cross Margining consist of IRS positions, JGB Futures positions (the first and second contract months of 10-year JGB Futures (physically delivered futures and cash-settled futures)), and <u>Interest Rate Futures (3-Month TONA Futures) positions (the contract months that have been designated by JSCC).</u>The types of margin that JSCC has designated as

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		<p>eligible for Cross Margining consist of initial margin and intraday margin for IRS positions and margin for JGB Futures positions <u>and Interest Rate Futures positions</u>.</p> <ul style="list-style-type: none"> ➤ JSCC shall exclude cross-margined JGB Futures positions and <u>cross-margined Interest Rate Futures positions</u> from the calculation of the amount of margin that is required for futures and options. It shall include them along with IRS positions in the calculation of the amount of initial margin and intraday margin that is required for IRS. • The entities that JSCC has designated as eligible to use Cross Margining consist of the following entities who trade JGB Futures <u>and Interest Rate Futures</u> either as a JGB Futures Clearing Participant or through a JGB Futures Clearing Participant: Clearing Participants (i.e., those entities who hold an IRS Clearing Qualification) and Customers (i.e., those entities who have entered into an Clearing Brokerage Agreement with a Clearing Participant). (Refer to the Annex " The Scope of Users of Cross

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		<p>Margining")</p> <ul style="list-style-type: none"> ➤ However, Customers who trade JGB Futures <u>and Interest Rate Futures</u> through a JGB Futures Clearing Participant that does not belong to the same Corporate Group as the Clearing Participant are not eligible to use Cross Margining.
<p>2. Handling of Cross-Margined Positions When Closing the Open Positions of a Trading Participant or One of Its Customers</p>	<ul style="list-style-type: none"> • Cross-margined positions in JGB Futures <u>and Interest Rate Futures</u> shall not be eligible for transfer to another trading participant or for closing at the trading participant's own discretion in such cases as (1) when OSE has suspended the trading participant's trading and other activities due to insolvency and (2) when the obligations of one of the trading participant's customers have become accelerated and immediately due and payable. 	<ul style="list-style-type: none"> • JSCC takes the offsetting of risk into consideration when calculating the amount of margin that is required for cross-margined JGB Futures positions <u>and cross-margined Interest Rate Futures positions</u> along with IRS positions. Therefore, the closing of such positions due to insolvency or other reasons shall be conducted in accordance with the method that has been prescribed by JSCC in its Interest Rate Swap Clearing Business Rules while keeping the offsetting of risk intact.
<p>3. Handling of JGB Futures Position Transfers by Cross Margining Users Who Are</p>	<ul style="list-style-type: none"> • JGB Futures Position Transfers by Cross Margining Users who are either JGB Futures Non-Clearing Participants or their customers shall be as prescribed by JSCC. 	<ul style="list-style-type: none"> • JSCC allows a Client (i.e., a Customer who does not belong to the same Corporate Group as its Clearing Broker) as the Cross Margining User to transfer its

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Either JGB Futures Non-Clearing Participants or Their Customers	<ul style="list-style-type: none"> The designation of a JGB Futures Backup Clearing Broker by a Cross Margining User who is either a JGB Futures Non-Clearing Participant or its customer shall be as prescribed by JSCC. 	<ul style="list-style-type: none"> cross-margined JGB Futures positions <u>and cross-margined Interest Rate Futures positions</u> to another JGB Futures Clearing Participant when either the JGB Futures Clearing Participant as the Cross Margining Requestor or the Clearing Participant as the Cross Margining Accepting Party has defaulted. JSCC allows a Client as the Cross Margining User to designate another JGB Futures Clearing Participant in advance as its JGB Futures Backup Clearing Broker to whom it can smoothly make JGB Futures Position Transfers.
4. Other	<ul style="list-style-type: none"> OSE shall make other necessary revisions. 	

III. Implementation Date

These revisions are scheduled to be implemented on March 4, 2024.

[EOD]