

JPX IR Day 2017



Clearing Business

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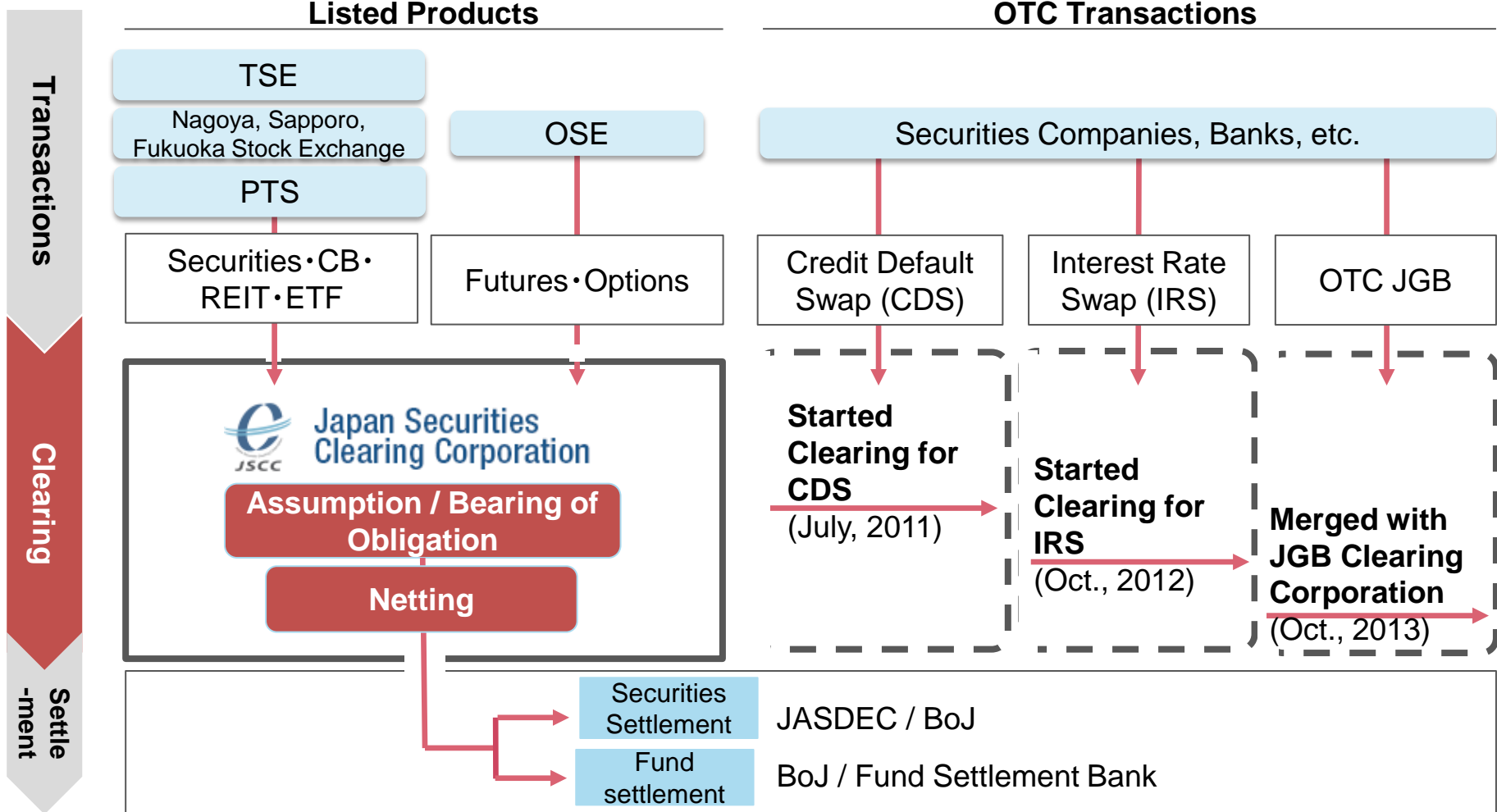
July 4, 2017

I. Business / Market Environment



Business Outline

- Started business in 2003. **Responsible for clearing services of securities centrally** which had been conducted separately by each exchange.
- Recently, **expanding the scope of clearing in the area of OTC transactions** based on the heightened needs to mitigate counterparty risk and to comply with tighter regulation stemming from the financial crisis.



Major Index relating to each Business

Cleared Products		Cash Products (Equities, etc.)	Listed Derivatives (Futures / Options)	Credit Default Swap (CDS)	Interest Rate Swap (IRS)	OTC JGB
Markets		Exchanges such as TSE, PTS	OSE	OTC		
Number of Clearing Participants (*1)		81	107	10	23	38
Scale of Clearing (FY2016) (*4)	Amount of Obligation Assumption (Bearing)	¥3.3tril./day	¥5.8tril./day (*2)	¥10.4bil./cycle (¥2.2bil./day)	¥4.0tril./day	¥63.8tril./day
	Settlement amount after netting	¥178.1bil./day	¥33.6bil./day	¥56mill./day (*3)	¥11.2bil./day (*3)	¥15.2tril./day

(*1) As of end-March, 2017

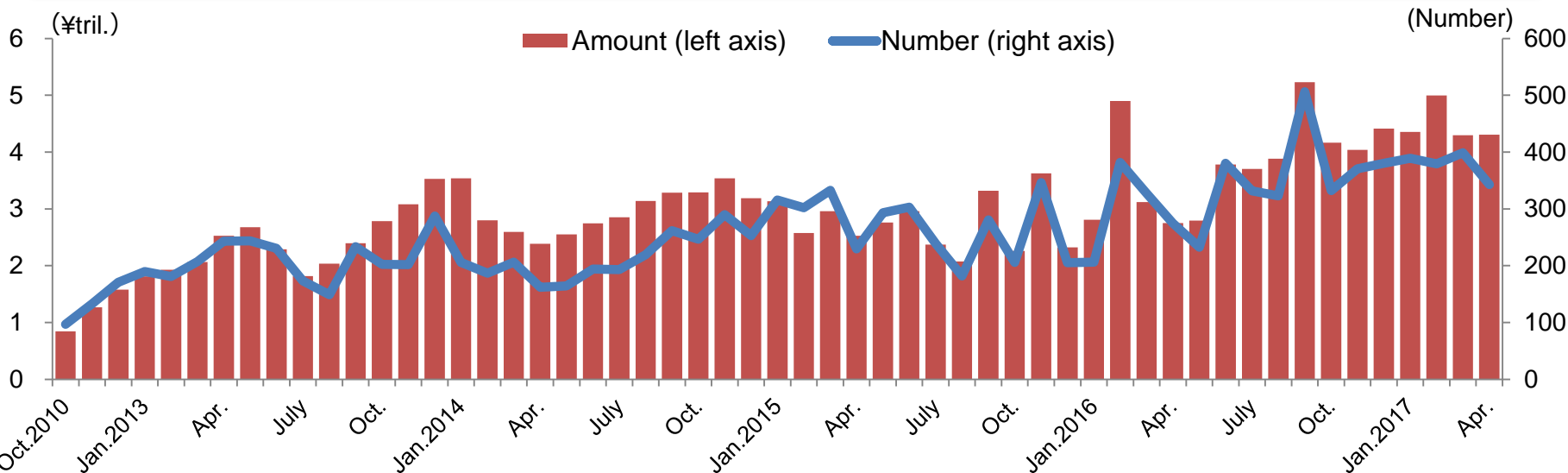
(*2) Total of 10-year JGB Futures, mini 10-year JGB Futures, 20-year JGB Futures, TOPIX Futures Large and Nikkei 225 Futures Large

(*3) Total of Variation Margin, etc.

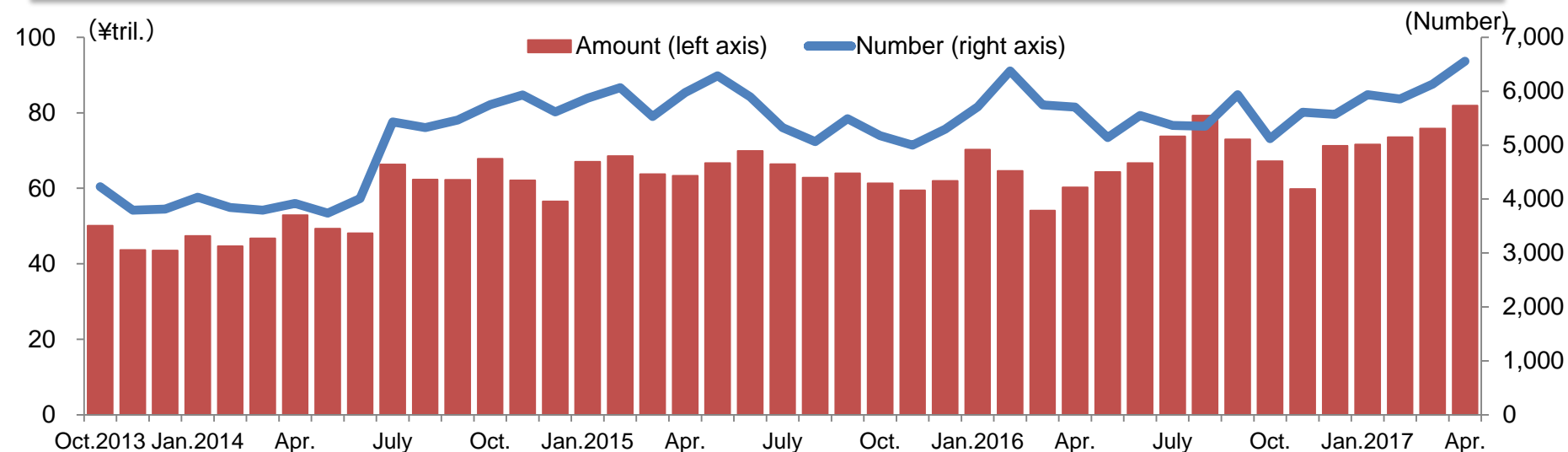
(*4) The amounts of Obligation Assumption (Bearing) and settlement amount after netting represent the daily average between April 2016 and March 2017.

Trend of Clearing for IRS and OTC JGB

Amount / number of Obligation Bearing relating to IRS (daily average)



Amount / number of Obligation Assumption relating to OTC JGB (daily average)



Market (Regulatory) Environment

- **Regulatory movements prompting the use of Clearing Houses** to financial institutions such as **mandatory use of Clearing Houses for OTC derivatives** have been accelerated on the back of financial crisis due to the bankruptcy of Lehman Brothers.
- At the same time, **regulations on Clearing Houses have been promoted globally**, requiring them to have **high level risk management function and robust business franchise** to deal properly with the risks concentrated.

Regulation to promote utilization of Clearing Houses

- **Oblige** Financial Institutions to **use Clearing House** centrally for **OTC derivatives**
- **Higher Capital is required** in capital regulations on financial institutions for transactions without using Clearing House
- **Oblige transfer of margin** also for transactions without using a Clearing House

Regulation to strengthen safety of Clearing Houses

- Establish **common standards relating to Risk Management** (PFMI*) for Clearing House
- In capital regulations on financial institutions, promote the use of eligible Clearing Houses with higher robustness by **imposing higher capital for transactions using a Clearing House which does not comply with a certain level of Risk Management**.
- Discussion for strengthen PFMI is progressed, including **governance on Clearing Houses and expanding financial sources for default of Clearing Participants**

II. Core Initiatives



Management Policies

- JSCC has set up “**Service Quality Improvement**” and “**Expansion of the Scope of Services**” as Management Policies of Current Medium-Term Business Plan (FY2016-18) toward the enhancement of “services” for users.

Major approaches in the 2nd Medium-Term Business Plan of JPX

III Fulfilling social mission by reinforcing market infrastructure

⇒ Expand Clearing / Settlement services and reinforce IT systems

IV Creating new horizons of exchange businesses

⇒ Explore into new business areas

Management Policies of JSCC

- Reinforcement of Clearing Functions, Risk Management, and IT Systems towards “**Service Quality Improvement**”
- Reinforcement of the Company’s Role as Core Infrastructure through “**Expansion of the Scope of Services**”

Service Quality Improvement

- Reinforcement of Clearing Functions, Risk Management, and IT Systems towards “**Service Quality Improvement**”

Category	Individual Business Plans
Listed Products Clearing Services	<ul style="list-style-type: none"> ■ Shortening of Equities Settlement Cycle (T+2) ■ Improvements in Risk Management Function etc as well as capability for new products (Replacement of listed derivatives clearing system)
OTC Derivatives Clearing Services	<ul style="list-style-type: none"> ■ Enhancement of functionality/convenience for OTC Derivatives clearing services <ul style="list-style-type: none"> • Improve compression service (early termination) for IRS Clearing Service • Introduce position transfer scheme for Clearing Customers in CDS Clearing Services
OTC JGB Clearing Services	<ul style="list-style-type: none"> ■ Shortening of JGB Settlement Cycle (T+1)
Company-Wide	<ul style="list-style-type: none"> ■ Enhancement of Risk Management Function

Expansion of the Scope of Services

- Reinforcement of the Company's Role as Core Infrastructure through **"Expansion of the Scope of Services"**

Category	Individual Business Plans
Listed Products Clearing Services	<ul style="list-style-type: none"> ■ Expand listed products eligible for clearing in response to the expansion of listed derivatives products
OTC Derivatives Clearing Services	<ul style="list-style-type: none"> ■ Expand OTC derivatives products eligible for clearing <ul style="list-style-type: none"> • Discuss towards clearing Cross Currency Swap • Expand Tenors (time to maturity) of Single Name CDS transactions eligible for clearing
OTC JGB Clearing Services	<ul style="list-style-type: none"> ■ Take steps for starting clearing service for Inflation-Linked Bonds
Company-Wide	<ul style="list-style-type: none"> ■ Take measures to deal with expansion of users, including those required by overseas regulations ■ In addition to discussing towards expansion of eligible products for clearing, discuss wider range of post trade service possibilities

Supplementary Information



Roles of JSCC

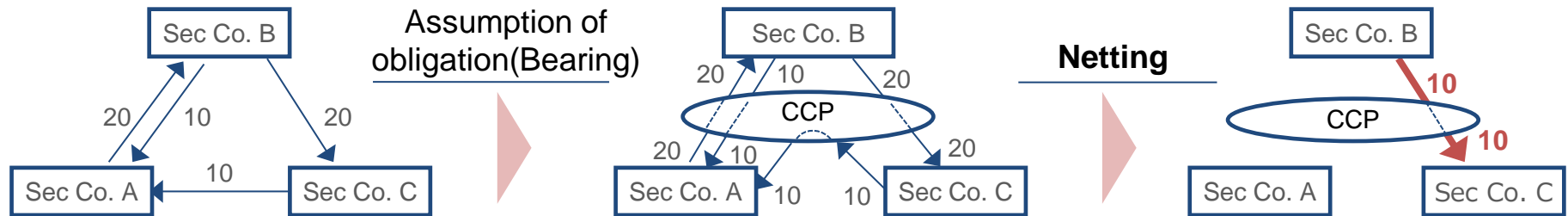
Assumption of Obligation (Bearing)

A Clearing Corporation, acting as a party to transaction between a Seller and a Buyer, is also referred to as CCP (Central Counter Party).



Netting

refers to **Compression of required settlement amount** by consolidating the amounts to be paid and received by a counterparty, in order to create a single value.



Advantages of Using Clearing House

Reduction in Credit Risk

Transactions without concerns over credit risk of counterparty are available

Reduction in Systemic Risk

Systemic Risk spill over to other participants due to default of one participant can be reduced.

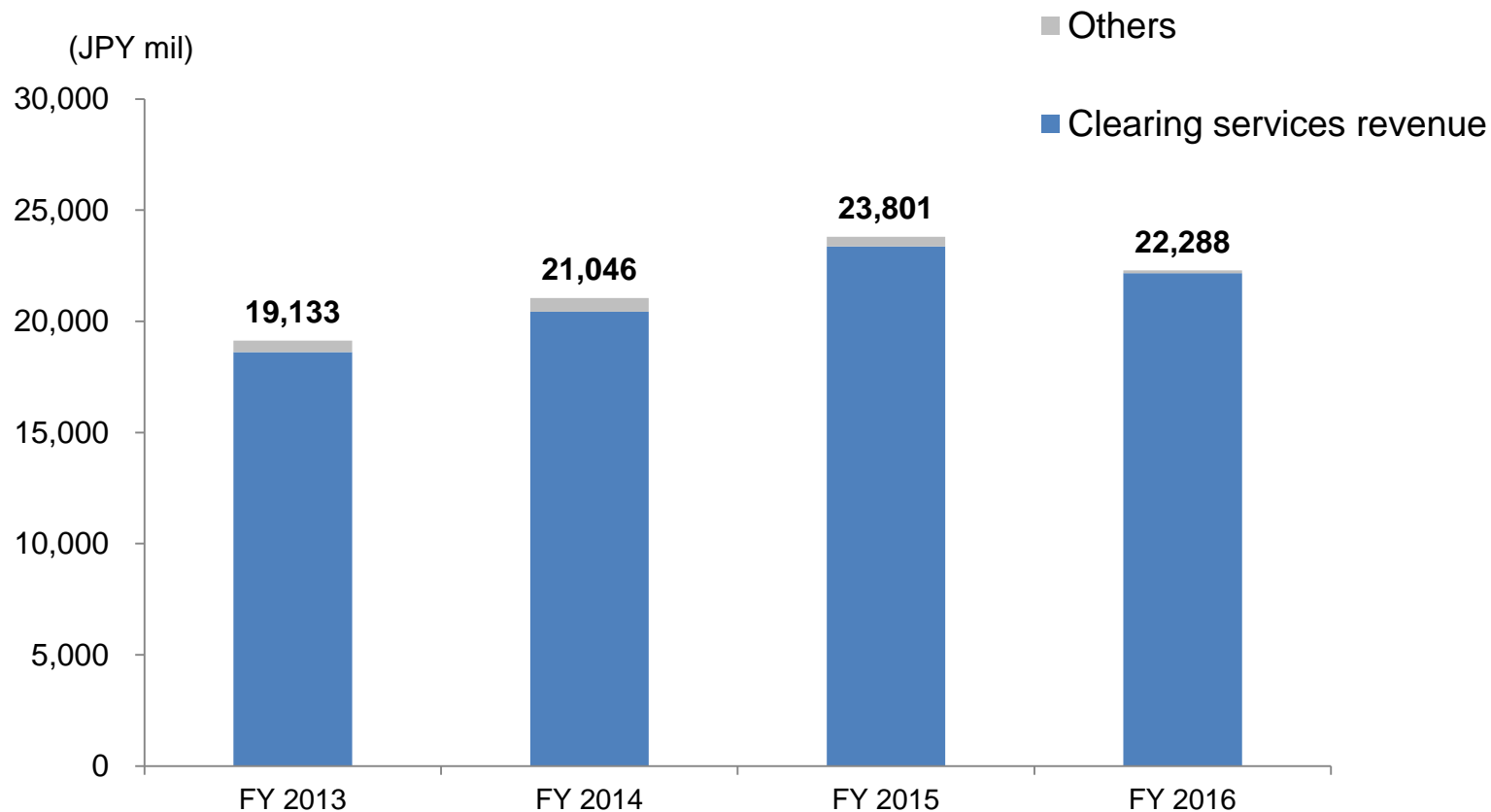
Improvement in efficiencies

Efficient use of equities / funds are available through netting. Settlement work can also be streamlined.

Stable handling at the time of participant's default

Stable handling would be conducted at the time of participant's default. (The participant's default in the past was handled properly.)

Changes in Revenues of JSCC



July 2013
 Integrated clearing function of
 Osaka Securities Exchange

October 2013
 Merged with Japan Government
 Bond Clearing Corporation

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