

## The revision of the Parental Guarantee system for JGB OTC Transaction Clearing Business

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Japan Securities Clearing Corporation

### I. Purpose

Currently, JSCC set the system so-called Parental Guarantee for JGB OTC Transaction Clearing Business, where lower financial criteria is applied for a Clearing Participant for which a guarantee is extended by Parent Company than that for the Principal Clearing Participants without such guarantee, subject to the condition that all Obligations of JGB OTC Transaction Principal Clearing Participants (hereinafter referred to merely as “Principal Clearing Participants”) owed to JSCC are guaranteed by Parent Company which satisfies the prescribed financial criteria .

Under the relevant Parental Guarantee system, Parent Companies which is able to extend a guarantee for Obligation of Principal Clearing Participants is currently limited to Financial Institutions etc. (Financial Instruments Business Operator, Bank, Cooperative Structured Financial Institution, Insurance Company, Securities Finance Company and Call Loan Dealer, the business categories allowed to acquire Clearing Qualification). As (1) there exist many Financial Institutions of which holding companies etc. are Parent Companies etc. other than Financial Institutions etc. and (2) for CDS Clearing Business and IRS Clearing Business (hereinafter referred to as “OTC derivatives Clearing Business”) the equivalent system exists but its business category is not limited to specific business, JSCC shall revise the system for Parental Guarantee for JGB OTC Transaction Clearing Business, such as abolishment of limitation of business category for a Parent Company which is able to extend a guarantee for Obligation of Principal Clearing Participants.

### II. Summary

Item	Contents	Remarks
1. Extension of the scope of legal entity which is able to extend a guarantee (1) Extension of the scope of group companies which is able to extend a guarantee	<ul style="list-style-type: none"><li>The scope of legal entities which are able to guarantee Obligation of Principal Clearing Participants owed to JSCC shall be extended to include a legal entity etc. which controls financial and business policies of the relevant Principal Clearing Participant (including the Parent Company of the relevant legal entity etc.) and the subsidiary of the Parent Company of the relevant legal entity etc. (which shall mean the other legal entity of which financial and business policies are controlled by the Parent Company of the relevant legal entity etc., including a subsidiary of the relevant other legal entity etc.) and other entities as JSCC approves as equivalent thereto (hereinafter referred to as “Parent Company etc.”).</li></ul>	<ul style="list-style-type: none"><li>Currently, “Parent Company “ is defined as a corporation which owns the majority of voting rights of total shareholders of Clearing Participant and a legal entity which is able to guarantee Obligation of Principal Clearing Participants is limited to such parent Company.</li><li>Same shall apply for OTC derivatives Clearing Business.</li></ul>

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Item	Contents	Remarks
<p>(2) Abolishment of the rule limiting business category</p> <p>2. Financial criteria for Parent Company etc.</p> <p>3. Treatment after the acquisition of Clearing Qualification</p>	<ul style="list-style-type: none"> <li>• The current provision limiting business category of Parent Company etc. which is able to extend a guarantee for Obligation of Principal Clearing Participants owed to JSCC to the specific business shall be abolished.</li> <li>• Net Worth (<i>jun zaisan</i>) etc. * required for the Parent Company etc. which extends a guarantee for the Obligation of the Principal Clearing Participant shall be amended to be equal to or more than the amount calculated as below. The number of Clearing Participants for which guarantees are extended by Parent Company etc. (if the relevant Parent Company etc. is a Clearing Participant, adding one (1) to the relevant number) multiplying by 5 billion yen; provided however, if such amount is less than 20 billion yen, 20 billion yen shall be the relevant amount.  (* Financial indicators subject to the criteria is set depending on the business category as follows: <ul style="list-style-type: none"> <li>• Financial Instruments Business Operator : Net Worth (<i>jun zaisan</i>)</li> <li>• Banks, Cooperative Structured Financial Institution, the Shoko Chukin Bank, Ltd., Insurance Company, Securities Finance Company and Call Loan Dealer : Net Assets (<i>jun shisan</i>)</li> <li>• Others: Financial indicator which JSCC considers as appropriate depending on the business category.</li> </ul> </li> <li>• A Principal Clearing Participant may, after the acquisition of Principal Clearing Qualification, apply JSCC for the use of Parental Guarantee system.</li> <li>• JSCC shall examine the relevant Application and if it approves as appropriate, approve the relevant Principal Clearing Participants for the use of Parental Guarantee system.</li> </ul>	<ul style="list-style-type: none"> <li>• Same shall apply for OTC derivatives Clearing Business.</li> <li>• Currently, irrespective of the number of guarantees, 20 billion yen for Net Worth (<i>jun zaisan</i>) (For Banks etc., Net Assets (<i>jun shisan</i>)) is required evenly.</li> <li>• Financial criteria required for Clearing Qualification Acquisition Applicant or Principal Clearing Participants shall remain unchanged.</li> <li>• Currently, timing is limited to the timing of acquisition of Principal Clearing Qualification only.</li> <li>• Application is made by submitting the document in a form as determined by</li> </ul>

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4. Condition for Initial Margin requirement amount increase	<ul style="list-style-type: none"> <li>• Given the purpose of Parental Guarantee system, Initial Margin requirement amount corresponding to credit condition of the Principal Clearing Participant for which Parental Guarantee is extended, shall be increased, if (1) a credit deterioration event(*) with respect to the relevant Principal Clearing Participant and a credit deterioration event with respect to Parent Company etc. occur simultaneously and credit of Parent Company etc. is likely to be insufficient or (2) credit of the relevant Parent Company etc. is insufficient.</li> </ul> <p>* Criteria is set for business categories as follows:</p> <ul style="list-style-type: none"> <li>• Financial Instruments Business Operator : Capital-to-Risk Ratio ( For Special Financial Instruments Business Operator, non-consolidated Capital-to-Risk Ratio and consolidated Capital-to-Risk Ratio) is less than 250%</li> <li>• Uniform International Standard Banks, the Norinchukin Bank and the Shoko Chukin Bank, Ltd. (hereinafter referred to as “Uniform International Standard Bank etc.” ): The occurrence of any conditions set out as below a. to c. (For Foreign Bank, the condition equivalent thereto shall apply.) <ul style="list-style-type: none"> <li>a Non-consolidated or consolidated Common Equity etc. Tier 1 ratio (For the Norinchukin Bank and Uniform International Standard Bank, Non-Consolidated or consolidated etc. Tier 1 Ratio. Same shall apply hereinafter.) is less than 5.625%.</li> <li>b Non-consolidated or consolidated Tier 1 ratio is less than 7.5%</li> <li>c Non-consolidated or consolidated Total Capital Adequacy Ratio is less than 10%</li> </ul> </li> <li>• Foreign Banks and Registered Financial Institutions other than Insurance</li> </ul>	<p>JSCC.</p> <ul style="list-style-type: none"> <li>• Currently, (1) the occurrence of a credit deterioration event with respect to the Clearing Participant and credit of its Parent Company is or is highly likely insufficient or (2) credit of the Parent Company is insufficient are the conditions for increase of Initial Margin.</li> <li>• Same shall apply for Initial Margin requirement amount increase system for IRS Transaction Clearing Business.</li> <li>• Specific criteria for the case where credit is or is likely to be insufficient shall remain unchanged.</li> <li>• For specific increase rate, refer to Annex 14, Appendix 2 of “Outlines concerning JGB OTC Transactions Clearing Business associated with Shortening of JGB Settlement Cycle and to Cover Inflation-Indexed”.</li> </ul>

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5. Others	<p>Company such as Uniform International Standard Banks etc.: Domestic non-consolidated or consolidated Capital Adequacy Ratio under domestic standards is less than 5%</p> <ul style="list-style-type: none"> <li>• Registered Financial Institution which is a Insurance Company : Non-consolidated or consolidated Solvency Margin is less than 500%</li> <li>• Legal entities other than any of above: The occurrence of the condition equivalent to any of above.</li> </ul> <p>• Other amendments of provisions associated with the revision of system shall be conducted.</p>	

### III. Implementation Timing

- These revisions will be implemented aimed at the implementation date of Shortening of Japanese Government Bonds Settlement Cycle (scheduled at May 1, 2018).

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