

Outlines concerning Expansion of Cross Margining Coverage and other Items

September 29, 2016
Japan Securities Clearing Corporation

Item	Outline	Remarks
<p>I. Expansion of Cross Margining Coverage</p> <p>1. Purpose</p> <p>2. Scope of Cross Margining Users</p>	<p>Allow use of Cross Margining covering IRS and JGB Futures by Customers other than Affiliated Customers (Affiliated Customer is a person in the same corporate group as the Clearing Participant) (Customers other than Affiliates are hereinafter referred to as “Clients”) to reduce Client’s collateral burden.</p> <ul style="list-style-type: none"> • Clients will be added to the scope of persons which can use Cross Margining. • A Clearing Participant trading JGB Futures through JGB Futures Clearing Participant in the different corporate group from that of the Clearing Participant can also use Cross Margining. • However, a Customer trading JGB Futures through JGB Futures Clearing Participant in the different Corporate Group from that of the Clearing Participant will not be eligible for utilization. 	<ul style="list-style-type: none"> • Cross Margining means a mechanism of reducing collateral burden through risk offset between different groups of transactions subject to clearing. Currently, Cross Margining users are limited to Clearing Participants and Affiliated Customers. • See Annex 1 for an illustration of expected utilization cases. • Affiliated Customers which have given an advance notice to JSCC of its desire of position transfer upon Clearing Broker default can also use Cross Margining. • As in the current practice, there should be one JGB Futures Clearing Participant requesting utilization of Cross Margining and one IRS Clearing Participant accepting the request per a Cross Margining user.

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3. IM Calculation Method	<ul style="list-style-type: none"> IM requirement for Clients will be calculated based on 7-day holding period. 	<ul style="list-style-type: none"> Same applies to the calculation of IM equivalent in Intraday Margin.
4. Client Position Transfer Upon Clearing Participant Default (1) Position Transaction Procedures (i) Request for Position Transfer (ii) Completion of Position	<ul style="list-style-type: none"> Upon default of the Clearing Participant requesting or accepting Cross Margining, Client is allowed to transfer its IRS position and JGB Futures positions subject to Cross Margining, if agreed, in advance, with another Clearing Participant. Position Transfer, if any, shall be processed separately for IRS and JGB Futures. When a Client desires a Position Transfer, it shall submit a request for Position Transfer to JSCC by 1:00 p.m. on the desired date of Position Transfer via the Successor Clearing Participant for IRS and the Successor Clearing Participant for JGB Futures Contracts. When there is a request for Position Transfer, JSCC shall calculate 	<ul style="list-style-type: none"> If the Client desires to have its transferred IRS positions and JGB Futures positions become subject to Cross Margining, new request for Cross Margining shall be submitted on or after the business day immediately following the date of Position Transfer. It should be the same flow as ordinary Position Transfer (see Annex 2 for the summary of Position Transfer). At the time of Position Transfer, it is not allowed to transfer either IRS or JGB Futures positions only, and have remaining positions subject to position liquidation (see “4. (2) Handling when Position Transfer is not Implemented”) instead of transferring such position.

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<p>Transfer</p> <p>(iii) Request Submission Deadline</p> <p>(2) Handling when Position Transfer is not</p>	<p>the Required Initial Margin for IRS on an assumption of completion of the Position Transfer.</p> <ul style="list-style-type: none"> • If JSCC can confirm that the Client has deposited the Initial Margin for IRS in an amount at least equal to such required amount, the Position Transfer shall come into effect around 4:30 p.m. • Position Transfer request submission deadline shall be 1:00 p.m. on the second business day following the Default Determination Date for the Defaulting Clearing Participant, in principle. • However, JSCC may extend the Position Transfer request submission deadline in light of an advice from the Default Management Committee, if the Client has in place with both IRS and JGB Futures Backup Clearing Brokers the arrangement that enables smooth execution of the Position Transfer and prompt future Position Transfer can be expected according to the status of progress of Position Transfer procedures. • Whether or not an extension of Position Transfer request submission deadline is permissible shall be judged each day, and such extension can be allowed up to the 6th business day following the Default Determination Date. • When Position Transfer is failed, the cross margined positions shall be liquidated in the IRS Clearing Service. 	<ul style="list-style-type: none"> • A Client utilizing Cross Margining may designate another Clearing Participant as its Backup Clearing Broker for each of IRS and JGB Futures. • Position liquidation scheme shall be the same as the method to be implemented upon default of a Cross

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<p>Implemented</p> <p>(3) Other</p> <p>5. Fees</p> <p>6. Other</p>	<ul style="list-style-type: none"> • When Position Transfer has been completed, the Initial Margin shall be deemed to have been deposited through the Successor Clearing Broker for IRS as the Client’s agent. • Fees related to expansion of Cross Margining coverage will not be set for the time being. • Transactions covered under Cross Margining, operational flow of request and acceptance, etc. will be the same as current practice. 	<p>Margining User currently in effect (see Annex 3 for illustration of the default settlement scheme related to Client’s position liquidation).</p>
<p>II. Introduction of Package Trades Function</p> <p>1. Purpose</p>	<ul style="list-style-type: none"> • Introduce a function of processing clearing procedures in bulk in respect of a group of transactions comprised of any combination of multiple new transactions (hereinafter referred to as “Package Trades”) to enhance efficiency of required collateral. 	<ul style="list-style-type: none"> • Currently, the amount of required margin at clearing is calculated by each transaction applied for clearing. By calculating margin for a group of risk offset transactions (so-called spread transaction or butterfly transaction, etc.) as a package and then processing clearing procedures, change in margin can be maintained at low level.

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2. Application for Clearing of Package Trades	<ul style="list-style-type: none"> When applying for clearing of Package Trades, a Clearing Participant shall apply to JSCC for clearing by attaching Package Trade ID. 	<ul style="list-style-type: none"> See Annex 4 for illustration of the operational flow.
3. Conclusion of Clearing of Package Trades	<ul style="list-style-type: none"> JSCC confirms that both parties to the original transactions (as to Client transactions, Clearing Broker should also be the same) applied for Clearing in respect of all transactions with the same Package Trade ID, and then calculates the amount equivalent to Intraday Margin based on the aggregate position of such Package Trades and Cleared Trades. Once JSCC has confirmed the deposit of IM by both parties made applications at least in the amount of the above Intraday Margin equivalent, JSCC will process Clearing in bulk in respect of such Package Trades. 	<ul style="list-style-type: none"> If the condition on the left is not satisfied, JSCC will not process Clearing of all of the Package Trades.
4. Eligible Package Trades for Clearing	<ul style="list-style-type: none"> Package Trades shall be the transactions in which both parties to the original transactions are the same. 	<ul style="list-style-type: none"> As to application for Clearing in respect of Customer (Client) transactions, similarly as in the case of existing practice, the Clearing Broker should accept brokerage by each transaction based on the request made by the Customer.

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5. Hours of Clearing Procedures for Package Trades 6. Other	<ul style="list-style-type: none"> • Hours of handling Clearing Procedures for Package Trades shall be same as hours of Clearing Procedures per Trade. • Handling of Package Trades after Clearing Procedures is the same as other new transactions. 	<ul style="list-style-type: none"> • Specifically, from 9:00 a.m. to noon, from 1:00 p.m. to 4:00 p.m., and from 5:30 p.m. to 7:00 p.m., and hours for Clearing Procedures for Backload Transactions do not apply. • For Clearing Fee for Package Trades, the existing fee structure per new trade shall apply to each transaction comprising Package Trades.
III. Change of Per Trade Compression Conditions	<ul style="list-style-type: none"> • With respect to Cleared Trades for which an application for Per Trade Compression is made by a Clearing Participant or a Customer, Per Trade Compression will be conducted when JSCC confirms an existence of other Cleared Trades with matching required economic terms in the same Proprietary Account or Customer Account on the date of application for Per Trade Compression, even if the settlement of Upfront Fee has not been completed. 	<ul style="list-style-type: none"> • Currently, completion of Upfront Fee settlement is one of the Per Trade Compression Conditions. • Other conditions should remain unchanged. • The treatment on the left shall also apply to Blended Rates Compressions. • See Annex 5 for report image reflecting this.
IV. Treatment of Risk Amount Exceeding Collateral when Calculating Clearing Fund	<ul style="list-style-type: none"> • As to Risk Amount Exceeding Collateral in the calculation of Clearing Fund (the amount obtained by subtracting Initial Margin requirement related to Proprietary Account and Customer Accounts from the stressed risk amount related to Proprietary Account and each Customer Account obtained through stress scenarios related to Clearing Funds), in light of the fact that, in actual case of default settlement, profit and Initial Margin surplus in Clearing Participant's 	<ul style="list-style-type: none"> • Under current procedures, when Risk Amount Exceeding Collateral for Proprietary Account and each Customer Account becomes negative, it is deemed zero, and is not deducted from Risk Amount Exceeding Collateral related to other accounts. • As to Risk Amount Exceeding Collateral for Customer Accounts, negative value will not be deducted from Risk

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	<p>Proprietary Account are to be applied to recovery of loss arising from position liquidation related to Customer Accounts, when Risk Amount Exceeding Collateral for Proprietary Account becomes negative, the amount equal to such negative value will be deducted from the Risk Amount Exceeding Collateral for the Customer Accounts under the same Clearing Participant.</p>	<p>Amount Exceeding Collateral for other accounts, in the same manner as current procedures.</p>
<p>V. Implementation Timing</p>	<ul style="list-style-type: none"> ▪ Aimed at January 2017. (Subject to approval of the Commissioner of the Financial Services Agency.) 	

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