

Outlines concerning Revision of Handling of Customer Profit upon Clearing Broker Default, etc. in Interest Rate Swap Clearing Business

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Japan Securities Clearing Corporation

I. Purpose

With respect to JSCC Interest Rate Swap Clearing Business, upon default of a Clearing Broker, close-out netting of the Customer position will occur between the defaulted Clearing Broker (hereinafter referred to as “Defaulter”) and the Customer if the Customer does not transfer its open interests to another Clearing Participant. Because of this, the Customer need to recover from the Defaulter in the bankruptcy proceedings its in-the-money position that is not covered by the Cash Settlement Amount deposited in advance. On this point, at major overseas CCPs, the structure allowing direct receipt by clients of this accrued profit from CCP is in place.

Now, from viewpoint of enhancement of Customer protection as well as competitiveness against overseas CCPs, JSCC will establish the required frameworks for promotion of Client Clearing utilization, including the measures of allowing Customers to receive the accrued profit directly from JSCC upon Clearing Broker default.

II. Outlines

Item	Description	Remarks
1. Revision of Handling of Customer Profit upon Clearing Broker Default		
(1) Receipt of Accrued Profit on or after Default Determination Date	<ul style="list-style-type: none">Upon Clearing Broker default, a Customer (Affiliate or Client) who does not transfer its open interest to another Clearing Participant shall have the right to request payment of Accrued Profit, which it is supposed to receive on and after the Default Determination Date, from JSCC.	<ul style="list-style-type: none">In line with PFMI, JSCC has introduced the segregated management of position and collaterals and position transfer framework, thereby protecting Customers by allowing them to transfer their position (open interest and collaterals therefor) upon Clearing Broker default.Even in the case where a Customer does not transfer its position, a Customer may request return of its Initial

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(2) Close-out Netting between JSCC and Defaulter	<ul style="list-style-type: none"> • The Defaulter shall be liable to JSCC for indemnification in the amount equal to the Customer's right to request payment described in (1) above. • The said indemnification liability shall be positioned as Unsettled Obligation (referring to "Unsettled Obligation" set forth in main body of Article 101.1 of the Interest Rate Swap Clearing Business Rules) of the Defaulter against JSCC, and shall be subject to the netting and application of collateral related to Defaulting Clearing Participant's Cleared Contracts. 	<p>Margin from JSCC.</p> <ul style="list-style-type: none"> • "Accrued Profit" means the portion attributable to a Customer of the profit or loss associated with fluctuation of net present value (NPV) of the Defaulting Clearing Participant's Cleared Contracts (referring to the Defaulting Clearing Participant's Cleared Contracts set forth in Article 91.1 of the Business Rules) which is supposed to be received on or after the Default Determination Date when it is in-the-money for the Customer. • Specifically, the amount of the Accrued Profit shall be calculated pursuant existing Article 35.1. (1) of the Interest Rate Swap Clearing Brokerage Agreement.
2. Exceptional Treatment of Prohibition of Assignment of Claims, etc.	<ul style="list-style-type: none"> • With an approval of JSCC, a Clearing Broker and a Customer may assign, furnish as pledge or otherwise dispose of their rights set forth in the Business Rules (including the right to claim return of Initial Margin) and the rights under the Interest Rate Swap Clearing Brokerage Agreement. 	<ul style="list-style-type: none"> • JSCC will approve the treatment on the left after confirming that it will not interfere with JSCC's appropriate and reliable performance of its operations as CCP and sound business management. In the confirming process, JSCC will comprehensively take various circumstances such as impact on the effectiveness of the close-out netting.

Item	Description	Remarks
3. Implementation Timing	<ul style="list-style-type: none"> • Aiming at implementation in September 2019. (Subject to authorization by the Commissioner of the Financial Services Agency) 	

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