

Outlines concerning Addition of Custody Method of Clearing Deposit in the Form of Cash in OTC Derivatives Clearing Business

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Japan Securities Clearing Corporation

I. Purpose

Under the current framework, JSCC holds the entire amount of Clearing Deposit received from Clearing Participants and Customers in the form of cash (hereinafter referred to as “Cash Collateral”) by establishing a trust at the trust bank. Now, JSCC will make necessary revisions to its rules, including an addition of the current account deposit at the Bank of Japan as an option for Cash Collateral custody method in addition to the existing method of the establishment of trust at the trust bank.

II. Outlines

Item	Description	Remarks
1. Addition of Cash Collateral Custody Method (1) Addition of Custody Method through Deposit to Bank of Japan Current Account (2) Notification of Cash Collateral Custody Method (3) Cap on Cash Collateral	<ul style="list-style-type: none"> • Add deposit to Bank of Japan current account to Cash Collateral custody methods in addition to the existing method of the trust establishment at the trust bank. • A Clearing Participant or a Customer desires custody of Cash Collateral through a method of deposit to Bank of Japan current account shall notify JSCC of its intention in advance. • JSCC will set a cap for each Clearing Participant or Customer on the 	<ul style="list-style-type: none"> • Change of Cash Collateral custody method is allowed quarterly (April, July, October and January). Notification of the change shall be submitted by 20th day of the month that is 2 months before the change. • A Customer shall submit the notification through its Clearing Broker. • The cap on Cash Collateral custody at Bank of

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Custody at Bank of Japan	<p>amount of Cash Collateral to be held at Bank of Japan.</p> <ul style="list-style-type: none"> Even in the case where the Bank of Japan is selected as a custodian of Cash Collateral, the portion of Cash Collateral exceeding the cap on Cash Collateral custody at Bank of Japan shall be held through a method of the establishment of trust at the trust bank. 	<p>Japan will be set separately for Initial Margin and Clearing Fund.</p> <ul style="list-style-type: none"> The cap on Cash Collateral custody shall be the amount obtained by multiplying Initial Margin or Clearing Fund requirement calculated on the previous business day by 1.3. When JSCC considers it necessary in light of market conditions, etc., JSCC may change the amount of cap. The portion of the Cash Collateral exceeded the cap on Cash Collateral custody at Bank of Japan and held through the method of the establishment of trust at the trust bank shall be subject to the Collateral Fee (See Item 2).
2. Collateral Fee Add-on related to Cash Collateral Held through Establishment of Trust at Trust Bank	<ul style="list-style-type: none"> To ask Clearing Participants to bear the trust fee in the amount equivalent to negative interest rate to accrue according to the amount of Cash Collateral to be held through the establishment of trust at the trust bank, the amount equivalent to such cost shall be added to the Collateral Fee. Collateral Fee add-on will be calculated as follows (obtained by adding up daily fees to be calculated on each day during the Calculation Period using below formula): (Total amount of Initial Margin and other collateral posted with JSCC in the form of cash and held through establishment of trust on the relevant day) $\times 1 / 365 \times$ (Additional Trust Fee Rate) 	<ul style="list-style-type: none"> Additional Trust Fee Rate shall be the rate obtained by multiplying the Bank of Japan policy rate (only in case of negative interest rate) by “▲1.” Collateral Fee shall be calculated quarterly.

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3. Other	<ul style="list-style-type: none"> • In association with the change of the trust fee payable to the trust bank, the Collateral Fee that is equivalent to the costs associated with the management of Eligible Securities Collateral shall be revised as follows: <ul style="list-style-type: none"> (i) JGB Management Costs (Average total Face Value of Initial Margin and other collateral for a Clearing Participant posted to JSCC in the form of JGB during Calculation Period) X (Number of Days in Calculation Period) / 365 X 0.11 / 10,000 (ii) US Treasuries Management Costs <ul style="list-style-type: none"> ① (Average total face value of Initial Margin and other collateral for a Clearing Participant posted to JSCC in the form of US Treasuries during the Calculation Period) X (Number of Days in the Calculation Period) / 365 X 0.11 / 10,000 ② (Sum of the face value of Initial Margin and other collateral for a Clearing Participant posted to JSCC in the form of US Treasuries as of the end of each month) X (Number of Days in the relevant month) / 365 X 0.8 / 10,000 ③ USD 10 X (number of deposit or withdrawal instructions for US Treasuries in respect of Initial Margin or other collateral given by each Clearing Participant to JSCC during the relevant month) 	<ul style="list-style-type: none"> • The face value of Initial Margin and other collateral for a Clearing Participant posted to JSCC in the form of US Treasuries in ① shall be the Japanese yen equivalent of such face value.
4. Implementation Timing	<ul style="list-style-type: none"> • The implementation timing shall be April, 2019. 	

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