

Outlines concerning Establishment of Initial Margin Increase Framework according to Creditworthiness in Cash Products Clearing Service

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Japan Securities Clearing Corporation

I. Purpose

A Central Counterparty (CCP) is required under the international regulations, including the Principles for financial market infrastructures (PFMI), to properly reflect the credit risk of Clearing Participants in the calculation of the margin requirement. JSCC has in place the framework of margin increase based on credit risk of Clearing Participants for CDS Clearing Service, IRS Clearing Service and OTC JGB Clearing Service, which enables JSCC to increase the amount of margin requirement when such risk increases. Moreover, JSCC will establish a similar framework of margin increase according to the credit risk for Listed Derivatives Clearing Service through the full implementation of monitoring margin (Emergency Margin for Specified Party) scheduled next year.

Then, JSCC will establish a framework that enables JSCC to flexibly increase margin requirement by reflecting Clearing Participant's credit risk to initial margin requirement for Cash Products Clearing Service.

II. Outlines

| Item | Description | Remarks |
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| 1. Initial Margin Requirement Increase | | |
| (1) Condition for Increase | <ul style="list-style-type: none"> • When the net worth (or the net assets when the Clearing Participant is a registered financial institution or securities finance company; the same applies hereinafter) of a Clearing Participant falls below 2 billion yen, JSCC may increase the required amount of initial margin for the relevant Clearing Participant. | <ul style="list-style-type: none"> • Under current rules, the net worth required for Cash Products Clearing Qualification is 2 billion yen. |
| (2) Amount of Increase | <ul style="list-style-type: none"> • When the increase of the required amount of initial margin shall apply as per (1) above, the amount of such increase shall be obtained as the product of the initial margin requirement increase base amount and the increase rate. | |
| (3) Increase Rate | <ul style="list-style-type: none"> • The “increase rate” referred to in (2) above shall be, according to the amount of net worth of the Clearing Participant, as follows: | |

| Item | Description | Remarks |
|--|--|---|
| <p>(4) Initial Margin Requirement Increase Base Amount</p> <p>2. Increase Amount Calculation Frequency</p> | <p>When net worth is less than 2 billion yen but not less than 1 billion yen: 0.5 When net worth is less than 1 billion yen: 1.0</p> <ul style="list-style-type: none"> • The “initial margin requirement increase base amount” referred to in (2) above shall be the average of the amounts of initial margin requirements which constitute the higher half of such amount for the relevant Clearing Participant during the past 3 month period (i.e., out of the amounts of the daily initial margin requirements for the past 3 month period, find the figure where the number of days on which the initial margin requirement was less than such figure is more than 50% of the total number of days on which the daily initial margin requirement was calculated for the past 3 month period, and take the average of the amounts of daily initial margin requirements that are above such figure). • The initial margin requirement increase shall be calculated monthly by setting the last business day of the previous month as the base date and apply from the 5th business day of the relevant month. • The Clearing Participant whose deposited margin becomes less than the total initial margin requirement as a result of the increase must additionally deposit margin in the amount not less than such shortfall by 2:00 p.m. on the next business day following the date on which such shortfall occurs (application date). | <ul style="list-style-type: none"> • Because change in the initial margin requirement tends to be large in the Cash Products trading, setting the amount of increase as the product of the increase base amount which is equal to the daily initial margin requirement and the increase rate is not desirable from procyclicality viewpoint. Therefore, the increase base amount is set as average of the higher half during a certain period. • Same as the current cycle for the required amount of clearing fund for Cash Products. • Margin may be deposited in Japanese yen cash, or currency or securities designated by JSCC. |

III. Implementation Timing

- To be implemented from April 1, 2019.

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