

# Partial Revision of Clearing Fund and Margin Requirement Calculation Method for Futures and Option Contracts

December 5, 2018

Japan Securities Clearing Corporation

## I. Purpose

In respect of the loss compensation financial resources to be used upon Participant default for the Clearing Service related to Futures and Option Contracts, in order to avoid steep rise and fall<sup>1</sup> of the required amount of mutualized financial resources (clearing fund) in association with sudden increase or decrease of position risk of a specific Participant, as well as to further enhance sufficiency of loss compensation financial resources to be used upon Participant default, JSCC has decided to partially revise<sup>2</sup> the calculation method of the required amount of clearing fund and Margin requirement increase judgment threshold according to the amount equivalent to the risk amount exceeding collateral, and makes necessary amendment to the “Rules on Required Amount of Clearing Fund” and the “Handling of Rules on Margins, etc. for Futures and Option Contracts.”

## II. Outlines

Item	Outlines	Remarks
1. Revision of Clearing Fund Requirement Calculation Method for Futures and Option Contracts	<ul style="list-style-type: none"><li>As Base PML Amount used for the calculation of the required amount of clearing fund related to JGB Futures Clearing Qualification and Index Futures Clearing Qualification, the average of the daily largest</li></ul>	<ul style="list-style-type: none"><li>While the largest value of the daily largest PML amount during the calculation period is currently adopted,</li></ul>

<sup>1</sup> Because JSCC adopts such requirement calculation method that enables JSCC to secure sufficient resources for covering expected loss upon default of the Participant posing the largest loss, the required amount of clearing fund tends to vary according to position risk of other firms over which a Clearing Participant has no control.

<sup>2</sup> Because this revision will make it possible to call additional Margin from Participants rapidly increasing position risk for continuous maintenance of defaulter pay type pre-funded resources at earlier stage, the effect of recognition of position risk increase at earlier stage and promotion of proper position management by the Participant in question is expected. Moreover, aiming at the same timing as the implementation of this revision, JSCC is planning to revise ordinary Margin calculation method (Margin calculation based on SPAN®) to set a new floor for some SPAN Parameters for the purpose of raising the bottom level of Margin requirement at the time of long term stagnation of market volatility.

Item	Outlines	Remarks
<p>2. Revision of Margin Requirement Increase Judgment Threshold according to Amount Equivalent to Risk Amount Exceeding Collateral</p>	<p>PML amounts during the calculation period shall be adopted.</p> <ul style="list-style-type: none"> <li>JSCC will revise the requirement increase judgment threshold for Margin so that Margin requirement will be increased when the amount equivalent to the risk amount exceeding collateral is more than the total amount of the required amount of clearing fund for the relevant Clearing Participants at the time of calculation of the amount equivalent to the risk amount exceeding collateral.</li> </ul>	<p>the method is revised to adopt average during the calculation period in the same manner as the calculation method for the Cash Products Clearing Qualification.</p> <ul style="list-style-type: none"> <li>Currently, Margin requirement is to be increased when the amount equivalent to the risk amount exceeding collateral becomes more than the sum of the total amount of the required amount of clearing fund for the relevant Clearing Participants, contribution from the Exchange and JSCC's Securities and Similar Contracts Settlement Guarantee Reserve.</li> </ul>

### III. Implementation Timing

- The revision described in II. 1. shall apply from the required amount of clearing fund for Futures and Option Contracts for which the base date for calculation is December 28, 2018, and the revision described in II.2. shall apply from January 15, 2019.

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