

Outlines concerning Petroleum Futures Clearing Qualification

September 29, 2020

Japan Securities Clearing Corporation

I. Purpose

In association with an establishment of the petroleum derivatives market at Osaka Exchange, Inc. (hereinafter referred to as “OSE”), JSCC revises its rules, including the establishment of a new Clearing Qualification covering transactions at such market.

II. Outlines

Item	Description	Remarks
1. Clearing Participants Framework		
(1) Clearing Qualification Type	<ul style="list-style-type: none"> • Petroleum Futures Clearing Qualification shall be newly established to cover transactions in the petroleum derivatives market at OSE. 	
(2) Handling related to Clearing Qualification	<ul style="list-style-type: none"> • The classification, requirement for acquisition and other obligations of and measures against Clearing Participants shall be the same as those applicable to the existing Clearing Qualifications related to Commodity markets (referring to the Clearing Qualifications for Commodity markets related to the Securities and Similar Contracts Clearing Business (such as Precious Metal Futures Clearing Qualification); the same applies hereinafter). 	<ul style="list-style-type: none"> • When a JSCC’s Clearing Participant holding Clearing Qualifications related to other Listed Derivatives obtains this Clearing Qualification, a simple examination, such as a check of the items specific to an acquisition of this Clearing Qualification, will be conducted in light of the clearing records and the like under such other Clearing Qualification, and a

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2. Assumption of Obligations	<ul style="list-style-type: none"> Various treatments, such as an assumption of obligations, Brokerage for Clearing of Securities, etc. and the account classification for the management of Contracts Subject to Clearing, shall be the same as the treatments for existing Clearing Qualifications related to Commodity markets. 	<p>reduction/exemption of Clearing Qualification acquisition fees (normally, 1mil yen) will apply for the time being.</p>
3. Contracts for Clearing Settlement Method	<ul style="list-style-type: none"> The method of settlement and Position Transfer of the Contracts for Clearing related to Petroleum Futures Clearing Qualification shall be the same as the method applicable to the existing Clearing Qualifications related to Commodity markets. 	<ul style="list-style-type: none"> As futures on the CME Group Petroleum Index scheduled to be listed simultaneously with OSE's establishment of the petroleum derivatives market will be settled via daily cash settlement or final settlement at the final Settlement Price as cash-settlement futures contracts, the provisions concerning the cash-settlement futures contracts will be prescribed.

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4. Margin	<ul style="list-style-type: none"> The calculation method of the required Margin amount related to Petroleum Futures Clearing Qualification shall be SPAN method, the same as the existing Clearing Qualifications related to Commodity markets. Other handling, such as deposit of Margin, shall be the same as the handling for the existing Clearing Qualifications related to Commodity markets. 	
5. Clearing Fund	<ul style="list-style-type: none"> The calculation method of the required clearing fund amount and handling of deposit related to Petroleum Futures Clearing Qualification shall be the same as those for the existing Clearing Qualifications related to the Commodity markets; provided, that the required clearing fund amount shall be the amount sufficient to cover loss from default of top 2 firms in terms of the expected loss amount upon default under extreme but plausible market conditions. 	<ul style="list-style-type: none"> Minimum requirement will not be set for the time being.
6. Measures upon Clearing Participant's Settlement Failure (1) Measures upon Settlement Failure	<ul style="list-style-type: none"> The measures upon settlement failure of a Clearing Participant related to the Petroleum Futures Clearing Qualification shall be the same as the measures for the existing Clearing Qualifications related to Commodity markets. 	<ul style="list-style-type: none"> Separate loss compensation waterfall from existing Clearing Qualifications will be established.

Item	Description	Remarks
(2) Loss Compensation from Settlement Failure	<ul style="list-style-type: none"> • JSCC will recover loss arising from the settlement failure of a Clearing Participant related to Petroleum Futures Clearing Qualification in the following order: <ul style="list-style-type: none"> (i) Defaulting Clearing Participant's house Margin, clearing fund and the like; (ii) Loss compensation by the Designated Market Operators and the like; (iii) JSCC's Commodity Futures Settlement Guarantee Reserve; (iv) Clearing fund of Clearing Participants other than defaulting Clearing Participant; (v) Recovery by First Special Clearing Charge; (vi) Recovery by Second Special Clearing Charge. 	<ul style="list-style-type: none"> • Handling of loss compensation shall be the same as those for the existing Clearing Qualifications related to Commodity markets.
7. Implementation Timing (Tentative)	<ul style="list-style-type: none"> • To be implemented around 3rd quarter of 2021. 	

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