

Outlines related to Addition of Eligible Collaterals in IRS Clearing Service

December 14, 2023
Japan Securities Clearing Corporation

I. Purpose

JSCC will make necessary arrangements in its rules to add USD cash to eligible collaterals having in mind an enhancement of convenience of existing stakeholders and on-boarding of diverse layers of Customers.

II. Outline

Item	Description	Remarks
1. Add USD Cash to Eligible Collaterals	<ul style="list-style-type: none"> • USD cash is added to the eligible collaterals in IRS Clearing Service. • USD cash collateral may be posted as IRS Clearing Fund, Initial Margin, Customer Initial Margin or Default Contingent Margin. 	<ul style="list-style-type: none"> • Currently, eligible collaterals are JPY cash, JGBs and US Treasuries. • Variation Margin may only be deposited in JPY cash.
2. Transfer and Management of USD Cash Collateral		
(1) Transfer of USD Cash Collateral	<ul style="list-style-type: none"> • Posting and withdrawal of USD cash collateral between Clearing Participants and JSCC shall be performed through a bank account transfer to the account in JSCC's name opened at the bank JSCC designates. • Posting and withdrawal of USD cash collateral will be made in increments of USD1. 	<ul style="list-style-type: none"> • Clearing Participants shall open their accounts used for an exchange of USD cash collateral at the bank JSCC designates. • When posting USD cash collateral, Participants shall submit prescribed notification to JSCC in advance. • A Customer shall post USD cash collateral through its Clearing Broker.
(2) Management of USD Cash Collateral	<ul style="list-style-type: none"> • A trust will be established periodically for the USD cash collateral posted by Clearing Participants and Customers. 	<ul style="list-style-type: none"> • As to i), securities acceptable as collateral are US Treasuries or US agency bonds.

Item	Description	Remarks
<p>3. Appraisal of USD Cash Collateral</p> <p>4. Handling of Profit or Loss from Management of USD Cash Collateral</p>	<ul style="list-style-type: none"> • USD cash collateral shall be managed in manners as described below: <ul style="list-style-type: none"> i) Reverse repo transactions with financial institutions; ii) Lending to a bank account of, and deposit in ordinary savings account at, the trust bank accepting the trust of Clearing Fund, Initial Margin and Default Contingent Margin (hereinafter referred to as “Collaterals”) or its affiliate, or the commercial bank used for an exchange of USD cash collateral; and iii) Deposit in custody account of the trust bank accepting the trust of Collaterals or its affiliate. • Exchange rate used to convert the market value of USD cash collateral to JPY shall be the value of Japanese yen per USD1 in the telegraphic transfer spot buying rate at the Tokyo Foreign Exchange Market on the second business day preceding the date of conversion. • JSCC may manage the USD cash collateral posted by Clearing Participants and Customers. When a profit is earned from the management, the management profit shall belong to JSCC. In this case, JSCC may distribute the amount remaining after deducting the amount separately prescribed by JSCC as an interest on the USD cash collateral by prorating such amount according to the average, during the period JSCC prescribes in public notice, of the total amount of Collaterals a Clearing Participant or a Customer posted in 	<ul style="list-style-type: none"> • The entire amount of the posted USD cash collateral will be managed through i) above, in principle. If there is any change in the interest rate market conditions or otherwise, responsive actions will be separately discussed as necessary. • The haircut applicable to USD cash collateral shall be subject to periodic revisions.

Item	Description	Remarks
5. Liquidation of USD Cash Collateral	<p>USD cash.</p> <ul style="list-style-type: none"> • JSCC shall pay the amount calculated as per the preceding paragraph to Clearing Participants and Customers. • When JSCC incurs any loss from the management of the USD cash collateral, such loss shall belong to JSCC. In this case, the loss incurred as a result of the management of the USD cash collateral shall be borne by Clearing Participants and Customers. • The amount to be born by each Clearing Participant or Customer shall be the amount of the loss incurred as a result of the management of the USD cash collateral prorated according to the total amount of Collaterals posted to JSCC by such Clearing Participant or Customer in USD cash as of the time and date separately prescribed by JSCC. • The loss amount calculated as per the preceding paragraph shall be borne by the relevant Clearing Participant or Customer. • When JSCC recognizes a default of a Clearing Participant posted USD cash collateral, it will liquidate USD cash collateral posted by such Clearing Participant or Customer for which such Clearing Participant acts as Clearing Broker in such manner, at such time and by such exchange rate as JSCC considers appropriate. Then, JSCC will apply the amount of liquidation proceeds remaining after deducting fees required for the liquidation to the payment of such 	<ul style="list-style-type: none"> • The loss sharing method will be discussed separately. • When a Customer posted USD cash collateral transfers its Cleared Contracts and posted collaterals to a Successor Clearing Broker, JSCC will not conduct the liquidation.

Item	Description	Remarks
6. Fee	<p>Clearing Participant's obligations owed to JSCC or compensation of loss.</p> <ul style="list-style-type: none"> No fee will be charged for a custody of USD cash collateral for the time being. 	

III. Implementation Timing

The implementation timing shall be April 1, 2024 (tentative).