

# Introduction of Stress Add-on IM and Partial Revision of Clearing Fund Calculation Method in Listed Financial Derivatives Clearing Service

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Japan Securities Clearing Corporation

## I. Purpose

With respect to Initial Margin and Clearing Fund in the Listed Financial Derivatives Clearing Service, JSCC will introduce a framework of charging Initial Margin Add-on based on the stressed risk amount (Stress Loss Over IM), and revise the allocation method in the calculation of the required amount of Clearing Fund (Each Participant), for further sophistication of the risk management framework by charging required amounts more commensurate with the risk amount of Clearing Participants and their Customers.

## II. Outline

Item	Description	Remarks
1. Establish Framework of Charging Initial Margin Add-on based on Stress Loss Over IM in Listed Financial Derivatives Clearing Service (1) Threshold for and Method of Judgment	<ul style="list-style-type: none"><li>When, at an account (or, in case of an omnibus account, a position reporting unit) managed by a Clearing Participant (hereinafter referred to as “Account or Position Reporting Unit”), a Stress Loss Over IM (SLOIM) assessed for each Clearing Qualification exceeds the threshold for judgment JSCC designates for each Clearing Qualification (hereinafter referred to as</li></ul>	<ul style="list-style-type: none"><li>All Clearing Qualifications under the Listed Financial Derivatives Clearing Service (referring to JGB Futures Clearing Qualification and Index Futures Clearing Qualification; the same applies</li></ul>

Item	Description	Remarks
(2) Threshold Calculation Method	<p>“Judgment Threshold”), JSCC will charge Initial Margin Add-on on the relevant Account or Position Reporting Unit.</p> <ul style="list-style-type: none"> <li>For each Clearing Qualification, the Judgment Threshold shall be the amount obtained by multiplying the sum of SLOIM of the top 2 firms by the adjustment multiplier.</li> </ul>	<p>hereinafter) shall be subject to this add-on framework.</p> <ul style="list-style-type: none"> <li>“Stress Loss Over IM (SLOIM)” means the amount obtained by subtracting the amount equivalent to the required amount of Initial Margin from the expected loss amount under the stress scenarios (the same applies hereinafter).</li> <li>The sum of SLOIM of top 2 firms shall be calculated by applying the method used in a calculation of Daily Largest Base PML Amount when calculating the required amount of Clearing Fund.</li> <li>JSCC will designate the specific level of the adjustment multiplier separately and notify Clearing Participants in advance.</li> </ul>
(3) Stress Add-on IM – Calculation Method and Account subject to Add-on Charge	<ul style="list-style-type: none"> <li>The Initial Margin Add-on charge based on SLOIM (hereinafter referred to as “Stress Add-on IM”) for each Account or Position Reporting Unit shall be determined by subtracting the Judgment Threshold from each Clearing Qualification’s SLOIM at the relevant Account or Position Reporting Unit,</li> </ul>	<ul style="list-style-type: none"> <li>However, when the Account or Position Reporting Unit that gave rise to the relevant Stress Add-on IM is of a Customer, a Clearing Participant may</li> </ul>

Item	Description	Remarks
(4) Stress Add-on IM – Calculation As Of Time and Covered Position	<p>and added to the required amount of Initial Margin for the Account or Position Reporting Unit that gave rise to the relevant Stress Add-on IM.</p> <ul style="list-style-type: none"> <li>Stress Add-on IM shall be calculated at the end of each business day based on the position status at that time.</li> </ul>	<p>deposit its own cash or eligible securities collateral with JSCC by giving advance notification to JSCC.</p>
(5) Handling upon Calculation of Intraday Margin Requirement and Emergency Margin Requirement	<ul style="list-style-type: none"> <li>When an Account or Position Reporting Unit of a Clearing Participant has been subject to Stress Add-on IM at the time of calculation of Intraday Margin requirement or Emergency Margin requirement, the relevant amount of Stress Add-on IM shall be added to Initial Margin equivalent for the relevant account or the account under which the relevant position reporting unit exists.</li> </ul>	
2. Revise Clearing Fund Allocation Method in Listed Financial Derivatives Clearing Service	<ul style="list-style-type: none"> <li>In respect of the rate to be applied when allocating the required amount of Clearing Fund (All Participants) proportionately to each Clearing Participant in the calculation of the required amount of Clearing Fund (Each Participant) for each Clearing Qualification, the rate determined based on the Stress Loss Over IM for each Clearing Participant (“PML Amount”) will be taken into account in addition to the rate determined based on the amount equivalent to the required amount of Initial Margin for each Clearing Participant (“IM Amount”) that is currently taken into account.</li> </ul>	<ul style="list-style-type: none"> <li>All Clearing Qualifications under the Listed Financial Derivatives Clearing Service shall be subject to this revision.</li> </ul>

Item	Description	Remarks
	<ul style="list-style-type: none"> <li>• The ratio between IM Amount-based rate and PML Amount-based rate shall be X:Y.</li>   <li>• The specific calculation method to which this revision is reflected is as follows:  Required Amount of Clearing Fund (Each Participant)  = (Greater of Period Average Base PML Amount and Daily Largest Base PML Amount) x {(Each Participant Prorated Base IM Amount/Total Prorated Base IM Amounts) x (X/(X+Y)) + (Each Participant Prorated Base PML Amount*/Total Prorated Base PML Amount**) x (Y/(X+Y))}</li>   <li>* “Each Participant Prorated Base PML Amount” means the average of the largest value of the base PML Amount under the stress scenarios on each trading day during the one-month period preceding the base date for calculation of required amount of Clearing Fund for each Clearing Participant.</li>   <li>** “Total Prorated Base PML Amounts” means the sum total of the Each Participant Prorated Base PML Amounts of all Clearing Participants.</li> </ul>	<ul style="list-style-type: none"> <li>• JSCC will designate the specific rate (X and Y) separately and notify Clearing Participants in advance.</li>   <li>• Handling of other components of the calculation method (i.e., Period Average Base PML Amount, Daily Largest Base PML Amount, Each Participant Prorated Base IM Amount and Total Prorated Base IM Amounts) will remain unchanged.</li> </ul>

Item	Description	Remarks
3. Implementation Timing (Tentative)	· The implementation is aimed at around spring 2025.	