

Enhancement of Clearing Framework related to Settlement of Creation and Redemption of Cash Type ETF

April 25, 2024

Japan Securities Clearing Corporation

I. Purpose

We revise a part of our clearing framework related to settlement of ETF creation/redemption which launched in January 2021 to improve the serviceability of creation/redemption process of cash creation/cash redemption ETF (hereinafter referred to as “Cash Type ETF”).

II. Outlines

Items	Outlines	Remarks
1. Clearing (1) Agreement on clearing between the related parties	<ul style="list-style-type: none">· In regard to clearing of creation/redemption of Cash Type ETF, when ETF Special Clearing Participant approves creation/redemption and application for clearing to JSCC submitted by Securities Clearing Participants via the ETF creation/redemption platform, an agreement to clear obligations listed below is deemed reached between Securities Clearing Participants and ETF Special Clearing Participants:<ul style="list-style-type: none">i) Delivery obligations of Cash Type ETF; andii) Payment obligation of cash calculated from Cash Type ETF price and the number of application ETF shares, stated in the Statement (referring to the document stating the items necessary for ETF Special Clearing Participants to specify contract details; the same applies hereinafter) of which details are fixed on the immediately following business day of the application acceptance date (referring to the date on which ETF Special Clearing Participant accepts an application for ETF creation/redemption; the same applies hereinafter).	<ul style="list-style-type: none">· Under the current framework, When the Statement related to application for creation/redemption is fixed, terms on clearing are deemed agreed between the parties, same as for In-kind creation/In-kind redemption Type ETF.
(2) Clearing by JSCC		

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Items	Outlines	Remarks
	<ul style="list-style-type: none"> • JSCC shall clear each obligation between Securities Clearing Participants and ETF Special Clearing Participants, when confirming details of the obligation to be cleared on the application acceptance date, as a general rule. 	
<p>2. Settlement Method</p> <p>(1) Handling by Securities Clearing Participant</p> <p>(2) Handling by ETF Special Clearing Participant</p> <p>3. Other matters</p>	<ul style="list-style-type: none"> • Delivery/receipt of Cash Type ETF and payment/receipt of cash between JSCC and Securities Clearing Participant are subject to the netting via DVP settlement. Contract price used to calculate cash amount paid/received for DVP Settlement is DVP Settlement Price calculated on the application acceptance date, as a general rule. • The difference between above-mentioned contract price and price of Cash Type ETF stated in the Statement shall be paid/received, included in DVP Payment. • Payment/receipt of cash between JSCC and ETF Special Clearing Participant shall be included in DVP Provisional Payment, using price of Cash Type ETF stated in the Statement • Other matters are revised as necessary 	<ul style="list-style-type: none"> • Currently, the price of Cash Type ETF stated in the Statement is deemed as the contract price. • The said difference shall not be included in DVP Provisional Payment, same as for the deferred cash payment/receipt when Delivery Failures occur. • The method to reflect risk relating to such difference in Initial Margin calculation on the application acceptance date shall be considered.

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III. Implementation Timing (scheduled)

Targeted at around 2nd Quarter of FY2025.