

Business Outlines Related to JGB Futures Pair-off Netting Framework

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Japan Securities Clearing Corporation

1. Purpose

Japan Securities Clearing Corporation will revise its rules to introduce the netting of delivery settlement of JGB Futures Transaction in Listed Derivatives Clearing Service and settlement of Japanese Government Bonds in JGB OTC Transaction Clearing Service (hereinafter referred to as “JGB Futures Pair-off Netting”), aiming to improve smoothness and efficiency of settlement operations.

II. Outlines

Item	Description	Remark
<p>1. Coverage of JGB Futures Pair-off Netting Framework</p> <p>1) Covered Clearing Participants</p> <p>2) Covered trades eligible for clearing</p>	<ul style="list-style-type: none"> • Clearing Participants with both JGB Futures Clearing Qualification and JGB OTC Transaction Clearing Qualification who have made an application prescribed by JSCC in advance (hereinafter referred to as “Pair-off Netting Applying Participants”) are eligible for JGB Futures Pair-off Netting framework. • Settlements related to the following transactions cleared by JSCC are eligible for JGB Futures Pair-off Netting Framework. <ul style="list-style-type: none"> ✓ Delivery settlement for 5-year JGB Futures, 10-year JGB Futures and 20-year JGB Futures in Listed Derivatives Clearing Service (referred to as “JGB Futures Physical Delivery Settlement”) ✓ Securities Delivery Obligation or Monetary Payment Obligation related to Individual Issue Transaction (Buying and Selling, Cash-secured Bond Lending Transactions and Standard Repo Transaction) in JGB OTC Transaction Clearing Service (referred to as “JGB OTC Individual Issue Settlement”) 	

Item	Description	Remark
3) Condition for conclusion	<ul style="list-style-type: none"> • JSCC will have Pair-off Netting concluded with the same face value for scheduled settlement between JGB Futures Physical Delivery Settlement and JGB OTC Individual Issue Settlement for Pair-off Netting Applying Participant, pursuant to the following conditions. <ul style="list-style-type: none"> ✓ For the same Japanese Government Bonds issue, for which settlement day matches with the delivery settlement day of JGB Futures Physical Delivery Settlement, scheduled settlement for JGB Futures Physical Delivery Settlement and JGB OTC Individual Issue Settlement with different delivery to JSCC or receipt from JSCC type exist for a single Clearing Participant. ✓ In each of JGB Futures Physical Delivery Settlement and JGB OTC Individual Issue Settlement, total delivery quantity to JSCC and total receipt quantity from JSCC, which are covered by JGB Futures Pair-off Netting, are same. • JSCC notifies the scheduled settlement based on the calculation result of JGB Futures Pair-off Netting conclusion on the preceding business day before the Settlement Day. • JGB Futures Pair-off Netting Settlement will not be concluded, if JSCC deems it is not adequate to conclude JGB Futures Pair-off Netting Settlement due to the unavoidable reason, such as failure in calculation of JGB Futures Pair-off Netting. 	
4) Handling of Settlement	<ul style="list-style-type: none"> • Settlements for which JGB Futures Pair-off Netting has been concluded are deemed to be completed at initial settlement starting timing. 	<ul style="list-style-type: none"> • Claims and obligations will not be set-off and obligation will not be discharged retroactively as of conclusion of JGB Futures Pair-off Netting, • Scheduled settlement not eligible for conclusion are to be settled in the conventional manner

Item	Description	Remark
<p>5) Handling of Settlement Amount Difference</p> <p>2. Handling of Margin, etc.</p> <p>1) Calculation of Required Amount</p> <p>2) Handling upon Clearing Participant Default</p>	<ul style="list-style-type: none"> • If difference between delivery settlement amount related to JGB Futures Physical Delivery Settlement and settlement amount related to JGB OTC Individual Issue Settlement for which JGB Futures Pair-off Netting has been concluded arises, such difference will be paid/received in FOS Settlement for JGB OTC Transaction Clearing Service. • Margin required amount in Listed Derivatives Clearing Service and Required IM Base Amount in JGB OTC Transaction Clearing Service will not be re-calculated even when JGB Futures Pair-off Netting is concluded. • If default, etc. with respect to Pair-off Netting Applying Participant occurs between the notification of scheduled settlement based on the JGB Futures Pair-off Netting calculation result and settlement completion, JSCC may revoke the conclusion of JGB Futures Pair-off Netting, as necessary. 	

III. Implementation timing

Framework is scheduled to be implemented along with the launch of JGB Clearing System replacement (around January 11, 2022).

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