

## Partial Revision of Clearing Fund Consumption/Calculation/Deposit Segmentation in Listed Derivatives Clearing Service

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Japan Securities Clearing Corporation

### I. Purpose

Under the loss compensation framework in the Listed Derivatives Clearing Service, the loss compensation financial resources are separately defined by Clearing Qualification due to historical background of the reorganization of Japanese domestic market functions, such as an integration of clearing functions. Now, to further achieve both stability and efficiency of said framework, JSCC will integrate the clearing fund consumption/calculation/deposit segmentations for each Clearing Qualification under the Financial Instruments and Exchange Act (FIEA) in light of the recent market demands for greater capital and funding efficiency. Also, along with the revisions outlined in this document, JSCC will reinforce the risk management framework for the commodity-related market derivative transactions, including a revision of MPOR (Margin Period of Risk) in Margin calculation related to the precious metal futures/option contracts to two (2) days, and will make other necessary revisions related to the loss compensation framework.

### II. Outlines

Item	Description	Remarks
1. Revise Clearing Fund Consumption/Calculation/Deposit Segmentation related to Financial Instruments Market Derivative Transactions (1) Clearing Fund Consumption/Calculation/Deposit Segmentation	<ul style="list-style-type: none"> <li>• With respect to the clearing fund (hereinafter referred to as the “FIEA Clearing Fund” (tentative name)) for the Clearing Qualifications related to the Securities and Similar Contracts Clearing Business listed below</li> </ul>	<ul style="list-style-type: none"> <li>• No change to types of or requirements for the Clearing Qualifications.</li> </ul>

Item	Description	Remarks
<p>(2) Clearing Fund Calculation Method</p> <p>i) Obtain Total Clearing Fund Requirement</p>	<p>(hereinafter referred to as the “FIEA Clearing Qualifications”), a part of the Listed Derivatives Clearing Service, JSCC will integrate the consumption/calculation/deposit segmentations that have been separated by each Clearing Qualification.</p> <ul style="list-style-type: none"> <li>➤ A clearing fund relating to JGB Futures Clearing Qualification</li> <li>➤ A clearing fund relating to Index Futures Clearing Qualification</li> <li>➤ A clearing fund relating to Precious Metal Futures Clearing Qualification</li> <li>➤ A clearing fund relating to Rubber Futures Clearing Qualification</li> <li>➤ A clearing fund relating to Agricultural Futures Clearing Qualification</li> <li>➤ A clearing fund relating to Petroleum Futures Clearing Qualification</li> </ul> <p>• The total requirement for the FIEA Clearing Fund will be calculated as a single unit across all FIEA Clearing Qualifications. The specific calculation method to which this revision is reflected is as follows:</p> <p>• Total Clearing Fund Requirement = Greater of Period Average Base PML Amount<sup>Note1</sup> and Daily Largest Base PML Amount<sup>Note2</sup> on the calculation base date</p>	<p>• No change to the clearing fund consumption/calculation/deposit segmentation under the Clearing Qualifications related to the Business of Assuming Commodity Transaction Debts, i.e. Energy Futures Clearing Qualification, Dojima Agricultural Futures Clearing Qualification, Dojima Sugar Futures Clearing Qualification and Dojima Precious Metal Futures Clearing Qualification.</p>

Item	Description	Remarks
<p>ii) Obtain Total Clearing Fund Requirement Equivalent by Clearing Qualification</p>	<p>Note1 “Period Average Base PML Amount” means the average amount of the Daily Largest Base PML Amounts during the Calculation Period (referring to the period of past 120 business days preceding the base date for calculation of the clearing fund).</p> <p>Note2 “Daily Largest Base PML Amount” refers to the largest of the Largest Base PML Amounts per Stress Scenario<sup>Note3</sup> on each day.</p> <p>Note3 “Largest Base PML Amounts per Stress Scenario” refers to the total sum of the Base PML Amounts<sup>Note4</sup> of the Clearing Participants whose Base PML Amount becomes the largest and the second largest in each Stress Scenario<sup>Note5</sup>.</p> <p>Note4 “Base PML Amount” refers to the total sum of the amounts obtained, in respect of each account, by subtracting Margin requirement from the loss arising from the unsettled contracts under stressed conditions. Only the positive value shall be included in the above calculation for accounts other than house.</p> <p>Note5 “Stress Scenario” refers to each of the combinations of a price fluctuation and a volatility fluctuation prescribed by JSCC as extreme but plausible market condition.</p> <p>• Prorate the total clearing fund requirement obtained under i) above according to the ratio of Clearing Qualification Prorated Base PML</p>	<p>• Currently, the 6-month average looking back from the base date for calculation of the clearing fund is adopted.</p> <p>• The calculation period for the Daily Largest Base PML Amount in the clearing fund requirement calculation related to the Business of Assuming Commodity Transaction Debts will also be revised.</p> <p>• The Stress Scenarios shall be those that cover all FIEA Clearing Qualifications.</p>

Item	Description	Remarks
<p>iii) Obtain Clearing Fund Requirement Equivalent by Clearing Qualification for each Clearing Participant</p>	<p>Amount<sup>Note6</sup> for each FIEA Clearing Qualification to obtain the Total Clearing Fund Requirement Equivalent by Clearing Qualification.</p> <p>Note6 “Clearing Qualification Prorated Base PML Amount” refers to the average of the sum total of the Largest Base PML Amount by Clearing Qualification per Stress Scenario<sup>Note7</sup> on each trading day during the period of past 20 business days preceding the base date for calculation of clearing fund.</p> <p>Note7 “Largest Base PML Amount by Clearing Qualification per Stress Scenario” refers to the Base PML Amount by Clearing Qualification<sup>Note8</sup> in the Stress Scenario under which the Base PML Amount by Clearing Qualification of each Clearing Participant becomes the largest.</p> <p>Note8 “Base PML Amount by Clearing Qualification” refers to the amount obtained, in respect of each account related to each Clearing Qualification, by subtracting the Margin requirement equivalent from the loss arising from the unsettled contracts under the Stress Scenario.</p> <ul style="list-style-type: none"> <li>• Divide the Total Clearing Fund Requirement Equivalent by Clearing Qualification obtained under ii) above among Clearing Participants in pro-rata by each Clearing Qualification to obtain the Clearing Fund</li> </ul>	<ul style="list-style-type: none"> <li>• In the same manner as current practice, for JGB Futures Clearing Qualification, Index Futures Clearing Qualification and Precious Metal Futures Clearing</li> </ul>

Item	Description	Remarks
	<p data-bbox="696 220 1507 300">Requirement Equivalent by Clearing Qualification for each Clearing Participant.</p> <ul data-bbox="663 432 1547 724" style="list-style-type: none"> <li data-bbox="663 432 1547 619">• The proration to each Clearing Participant shall be made according to the ratio based on the Margin requirement equivalent for each Clearing Participant and the ratio based on the Largest Base PML Amount by Clearing Qualification per Stress Scenario for each Clearing Participant.</li> <li data-bbox="663 639 1547 724">• Each value used for the proration shall be the average for the period of past 20 business days preceding the base date for calculation.</li> </ul>	<p data-bbox="1621 220 2098 352">Qualification, when the amount so obtained is less than JPY 10mil., it shall be JPY 10mil.</p> <ul data-bbox="1588 432 2098 1251" style="list-style-type: none"> <li data-bbox="1588 432 2098 778">• The weight between each ratio in each Clearing Qualification shall be the same as the weight between the ratio based on Margin requirement equivalent and the ratio based on SLOIM in the clearing fund proration method currently in effect.</li> <li data-bbox="1588 799 2098 932">• Currently, the 1-month average looking back from the base date for calculation is adopted.</li> <li data-bbox="1588 952 2098 1251">• The look back period in the calculation of the Individual Company Prorated Base PML Amount in the calculation of the clearing fund requirement for the Business of Assuming Commodity Transaction Debts will also be revised.</li> </ul>

Item	Description	Remarks
<p>iv) Obtain FIEA Clearing Fund Requirement for each Clearing Participant</p> <p>2. Introduce Juniorization Rule in Consumption of Survivors' Clearing Fund (4th Priority)</p> <p>(1) Juniorization Rule</p> <p>i) Designate Clearing Qualification subject to Juniorization</p> <p>ii) Recover Loss by Juniorization</p>	<ul style="list-style-type: none"> <li>• Add up the Clearing Fund Requirement Equivalent by Clearing Qualification for each Clearing Participant obtained under iii) above at a Clearing Participant level to obtain the FIEA Clearing Fund Requirement for each Clearing Participant.</li>   <li>• When the loss compensation financial resources from the first priority (defaulter's collateral, including Margin/clearing fund) up to the third priority (recovery by JSCC's Settlement Guarantee Reserve) are not sufficient to cover the loss JSCC incurs from a Clearing Participant default, the Clearing Qualification for which the loss still remains at that time shall be designated as Clearing Qualification subject to juniorization (hereinafter referred to as "Qualification subject to CF Juniorization").</li>   <li>• By each Qualification subject to CF Juniorization, the remaining loss will be covered by each survivor's Clearing Fund Requirement</li> </ul>	<ul style="list-style-type: none"> <li>• In the same manner as current practice, one-half of the amount obtained by subtracting JPY 1bil. from the Clearing Fund Requirement for each Clearing Participant shall be deposited in JPY cash.</li>   <li>• No Clearing Qualification for which the loss is covered by the resources up to the third priority will be the Qualification subject to CF Juniorization.</li>   <li>• Such Clearing Fund Requirement Equivalent for each Clearing Participant will be obtained in the same manner as</li> </ul>

Item	Description	Remarks
(2) Handling of Clearing Fund Remaining after Juniorized Consumption	<p>Equivalent by Clearing Qualification for each Clearing Participant under 1.(2).iii) during the Default Settlement Period.</p> <ul style="list-style-type: none"> <li>• When the loss still remains after said juniorized consumption, the remaining loss shall be covered by the remaining FIEA Clearing Fund Requirement for each Clearing Participant under 1.(2).iv) for each survivor.</li> <li>• When the loss remains in multiple Clearing Qualifications, the remaining loss shall be covered by the amount obtained by prorating the remaining FIEA Clearing Fund Requirement for each Clearing Participant under 1.(2).iv) for each survivor according to the ratio of the remaining loss in each Clearing Qualification.</li> </ul>	<p>the calculation method for the clearing fund requirement during the Default Settlement Period currently in effect.</p>
<p>3. Partial Revision of Assessment Resources</p> <p>(1) Handling of First Special Clearing Charge (5th Priority)</p>	<ul style="list-style-type: none"> <li>• Along with the revision of the consumption/calculation/deposit segmentation of the clearing fund, JSCC will also integrate the consumption/calculation/deposit segmentations of the First Special Clearing Charge in the FIEA Clearing Qualifications.</li> </ul>	<ul style="list-style-type: none"> <li>• In the same manner as current practice, the First Special Clearing Charge shall be capped at 3 times of the clearing fund requirement.</li> </ul>

Item	Description	Remarks
(2) Handling of Second Special Clearing Charge (6th Priority) and Further Priorities	<ul style="list-style-type: none"> <li>• When the financial resources up to the fourth priority resources are not sufficient to cover the loss JSCC incurs from a Clearing Participant default, the Clearing Qualification for which the loss still remains at that time will be designated as Clearing Qualification subject to First Special Clearing Charge juniorization, and the remaining loss in each Clearing Qualification subject to First Special Clearing Charge juniorization shall be covered by the First Special Clearing Charge equivalent by Clearing Qualification of each survivor.</li> <li>• If the loss still remains uncovered after said juniorized consumption, such loss shall be covered by the remaining First Special Clearing Charge for each survivor.</li> <li>• When the loss compensation financial resources up to the fifth priority are not sufficient to cover the loss JSCC incurs from a Clearing Participant default, the loss recovery by the Second Special Clearing Charge, a consultation to avoid early termination and an early termination (partial tear-up) will be conducted by the Clearing Qualification for which the loss still remains at that time.</li> <li>• For the FIEA Clearing Qualifications, the ratio related to the clearing fund requirement of the survivors consenting to the countermeasures submitted to the consultation, that is one of the requirements for a consultation, shall be the ratio related to the Clearing Fund Requirement</li> </ul>	<ul style="list-style-type: none"> <li>• The handling of such juniorization shall be the same as the juniorization of the clearing fund.</li> <li>• Currently, it is the ratio related to the clearing fund requirement during the Default Settlement Period.</li> </ul>

Item	Description	Remarks
4. Revise Margin related to Precious Metal Futures/Option Contracts	<p>Equivalent for each Clearing Participant by Clearing Qualification during the Default Settlement Period.</p> <ul style="list-style-type: none"> <li>• MPOR used for the Margin calculation related to the Commodity Futures/Option Contracts in the Precious Metal Futures Clearing Qualification and the Dojima Precious Metal Futures Clearing Qualification shall be two (2) days.</li> </ul>	<ul style="list-style-type: none"> <li>• Currently, one (1) day.</li> </ul>

### III. Implementation Timing (Tentative)

Target implementation timing is the summer of 2027.

(“4. Revise Margin related to Precious Metal Futures/Option Contracts” will be implemented at an earlier timing once separate arrangements are made among the parties involved.)