

Partial Revision of Calculation Method of Initial Margin and Clearing Fund and Other Measures in JGB OTC Transaction Clearing Business

March 4, 2019

Japan Securities Clearing Corporation

1. Purpose

In JGB OTC Transaction Clearing Business, JSCC will set necessary framework in place, aiming to further improve sufficiency of our risk management of Clearing Participants by revising the observation period of calculated items for Initial Margin and calculation method and other items for the stressed scenarios for JGB OTC Transaction Clearing Fund so that market condition will be reflected more precisely and procyclicality at time of market fluctuation will be suppressed.

II. Overview

Item	Description	Remarks
<p>1. Revision of Calculation Method of Initial Margin</p> <p>(1) Observation period of Market Price Fluctuation Risk Factors</p> <p>(2) Timing to revise basis spread by issue</p> <p>(3) Increase in required</p>	<ul style="list-style-type: none"> • Observation period used for calculation of Market Price Fluctuation Risk Factor is either 251-Business Day or 501-Business Day periods and the larger value using either of the periods will be adopted as Market Price Fluctuation Risk Factor. • In the observation period for calculation of Market Price Fluctuation Risk Factor, for one Business Day, a value of the stressed day occurred before past 251-Business Day or 501-Business Day period will be used. • Market survey for review of basis spread by issue will be conducted in March, June, September and December. New basis spread by issue will be applied on the fifteenth Business Day of the month of the survey. • For a Clearing Participant, whose value obtained by dividing Required Initial 	<ul style="list-style-type: none"> • Current observation period is 250 Business Days • Specifically, the day with the largest 3-day market fluctuation during the period, separately prescribed by JSCC will be the stressed day. • Currently, survey is conducted in January, April, July and October. Applied on the 10th Business Day in the month of the survey. • Current criteria are more than 50%, 75%

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<p>amount when Required Initial Margin Amount becomes larger than Net Worth</p> <p>2. Review of calculation method of JGB OTC Transaction Clearing Fund</p> <p>(1) Review of stress scenario</p> <p>(2) Set Ad-hoc Revision in Place</p> <p>3. Revision of type of Netting Accounts</p>	<p>Margin Amount by net worth falls in the criteria set forth below, the measures set forth below will be taken.</p> <table border="1" data-bbox="539 288 1487 560"> <thead> <tr> <th data-bbox="539 288 960 336">Criteria for Increase</th> <th data-bbox="960 288 1487 336">Measures Taken</th> </tr> </thead> <tbody> <tr> <td data-bbox="539 336 960 379">75% or more but less than 87.5%</td> <td data-bbox="960 336 1487 379">Necessary reporting is requested.</td> </tr> <tr> <td data-bbox="539 379 960 472">87.5% or more but less than 100%</td> <td data-bbox="960 379 1487 472">Required Initial Margin Amount will be increased to the amount multiplying 1.2</td> </tr> <tr> <td data-bbox="539 472 960 560">More than 100%</td> <td data-bbox="960 472 1487 560">Required Initial Margin Amount will be increase to the amount multiplying 1.4</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • The calculation method to reflect stressed condition (i.e., extreme but plausible market conditions) under stress scenario will be revised. • Lower limit value of stress yield in stress tests will be abolished. • JSCC may, revise Required JGB OTC Transaction Clearing Fund Amount on an ad-hoc basis, in the event of a merger with respect to a Clearing Participant or other events as JSCC approves as necessary. • A Clearing Participant may revise type of Netting Account that it holds. 	Criteria for Increase	Measures Taken	75% or more but less than 87.5%	Necessary reporting is requested.	87.5% or more but less than 100%	Required Initial Margin Amount will be increased to the amount multiplying 1.2	More than 100%	Required Initial Margin Amount will be increase to the amount multiplying 1.4	<p>and 87.5% and necessary reporting, increased Required Initial Margin Amount to the amount multiplying 1.3, or increased Required Initial Margin Amount to the amount multiplying 1.6 is requested, respectively.</p> <ul style="list-style-type: none"> • Specifically, in principal component analysis set for scenario, calculation method using Pareto Distribution will be applied. • For Initial Margin, similar provision was already stipulated. • Netting Accounts are three types, which are “Ordinary Account”, “Repo Transactions Only Account” and “Subsequent Collateral Allocation Repos Only Account”.
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87.5% or more but less than 100%	Required Initial Margin Amount will be increased to the amount multiplying 1.2									
More than 100%	Required Initial Margin Amount will be increase to the amount multiplying 1.4									

III. Timing of Enforcement

These revisions will come into effect on April 1, 2019, provided, however, that revisions for the items listed below will come into effect on each date specified below, respectively.

- Revision in II.1.(1) will commence on April 22, 2019 and calculation using value of stressed day will commence on June 10, 2019
- Revision in II.1.(3) will commence on June 10, 2019
- As for revision in II.2.(1), lower limit value of stress yield will be abolished on April 15, 2019. Risk Amount Exceeding Collateral in calculating Required Clearing Fund Amount on and after June 10, 2019 will be based on the values calculated on or after April 1, 2019.

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