

## Outlines of Compression Scheme Revision for CDS Transactions

January 7, 2016

Japan Securities Clearing Corporation

### I. Purpose

As to Compression scheme (meaning the process of unwinding multiple Clearing Contracts whose predetermined economic terms match and having new trade come into effect; the same applies hereinafter) introduced in June 2015, necessary revisions, such as removing requirement for consent of counterparty to original transaction, will be implemented to enhance user convenience.

### II. Outline

Item	Description	Remarks
1. Revision of Existing Compression Scheme	<ul style="list-style-type: none"> <li>• Currently, as a condition for Compression, both parties to the original transaction need to apply for Compression of cleared CDS Transaction (hereinafter referred to as “Clearing Contract”).</li> <li>• To enhance user convenience, the rule will be revised to lower the requirements for conclusion of Compression and make Compression possible by an application from one side of the original transaction.</li> </ul>	<ul style="list-style-type: none"> <li>• In order for Compression to become effective, certain predetermined economic conditions (such as Series (in case of Index CDS), Reference Entity (in case of Single Name CDS) and Fixed Rate) must match. Out of such economic conditions, “counterparty to original transaction” will be excluded from items that need to match.</li> <li>• There will be no change in operational flow.</li> </ul>
2. Introduction of Ad-Hoc Compression Scheme	<ul style="list-style-type: none"> <li>• In addition to current Compression scheme, JSCC will introduce a scheme of making Compression possible based on an application of a Clearing Participant, etc. on an ad-hoc basis (Ad-Hoc Compression scheme).</li> <li>• When a Clearing Participant makes an application for an Ad-Hoc Compression, if JSCC can confirm, at 4:00 p.m. on the JSCC Business Day,</li> </ul>	<ul style="list-style-type: none"> <li>• Current Compression will be conducted only on a day designated by JSCC at each time, but Ad-Hoc Compression can be conducted on any JSCC Business Day.</li> <li>• An application for Ad-Hoc Compression of Clearing Contract (Customer Account) shall be made by the Clearing</li> </ul>

DISCLAIMER: This is the reference translation of the original Japanese document. Japan Securities Clearing Corporation shall accept no responsibility or liability for damage or loss caused by any error, inaccuracy, or misunderstanding with regard to this translation. This document may not be reproduced or redistributed in whole or in part without the permission of Japan Securities Clearing Corporation.

Item	Description	Remarks
	<p>an existence of another Clearing Contract whose predetermined economic terms match, JSCC will conduct Ad-Hoc Compression.</p>	<p>Customer.</p> <ul style="list-style-type: none"> <li>• In addition to the economic terms that need to match for existing Compression, Notional Amount also needs to match (counterparty to original transaction does not need to match).</li> <li>• See “Reference” for detailed operational flow.</li> <li>• In association with the introduction of Ad-Hoc Compression scheme, current Voluntary Termination scheme (a scheme of unwinding Clearing Contract before its stated maturity with an agreement of parties to the original transaction) will be abolished.</li> </ul>
<p>3. Revision of Handling of Credit Event Notice</p>	<ul style="list-style-type: none"> <li>• In line with allowing Compression (including Ad-Hoc Compression) without consent of the counterparty to the original transaction, for a settlement upon occurrence of Restructuring Credit Event, JSCC will deliver Credit Event Notice to Clearing Participants for all Clearing Contracts subject to 2003 ISDA Credit Derivatives Definitions, for which delivery of Credit Event Notice to the counterparty to the original transaction is required, for the purpose of realization of smooth settlement process upon occurrence of Restructuring Credit Event.</li> </ul>	<ul style="list-style-type: none"> <li>• Under current Compression scheme, the counterparty to the original transaction can always be identified by requiring application from both parties to the original trade. For Clearing Contracts subject to 2003 ISDA Credit Derivatives Definitions, smooth settlement can be achieved by JSCC giving Credit Event Notice to the counterparty to the original transaction when a Clearing Participant delivers Credit Event Notice to JSCC upon occurrence of Restructuring Credit Event. However, if link to the counterparty to the original transaction is not maintained, issues, such as how to designate the counterparty to receive Credit Event Notice, would arise.</li> </ul>
<p>4. Implementation</p>	<ul style="list-style-type: none"> <li>• Aimed at March 2016 (conditioned upon an approval of the Commissioner</li> </ul>	

DISCLAIMER: This is the reference translation of the original Japanese document. Japan Securities Clearing Corporation shall accept no responsibility or liability for damage or loss caused by any error, inaccuracy, or misunderstanding with regard to this translation. This document may not be reproduced or redistributed in whole or in part without the permission of Japan Securities Clearing Corporation.

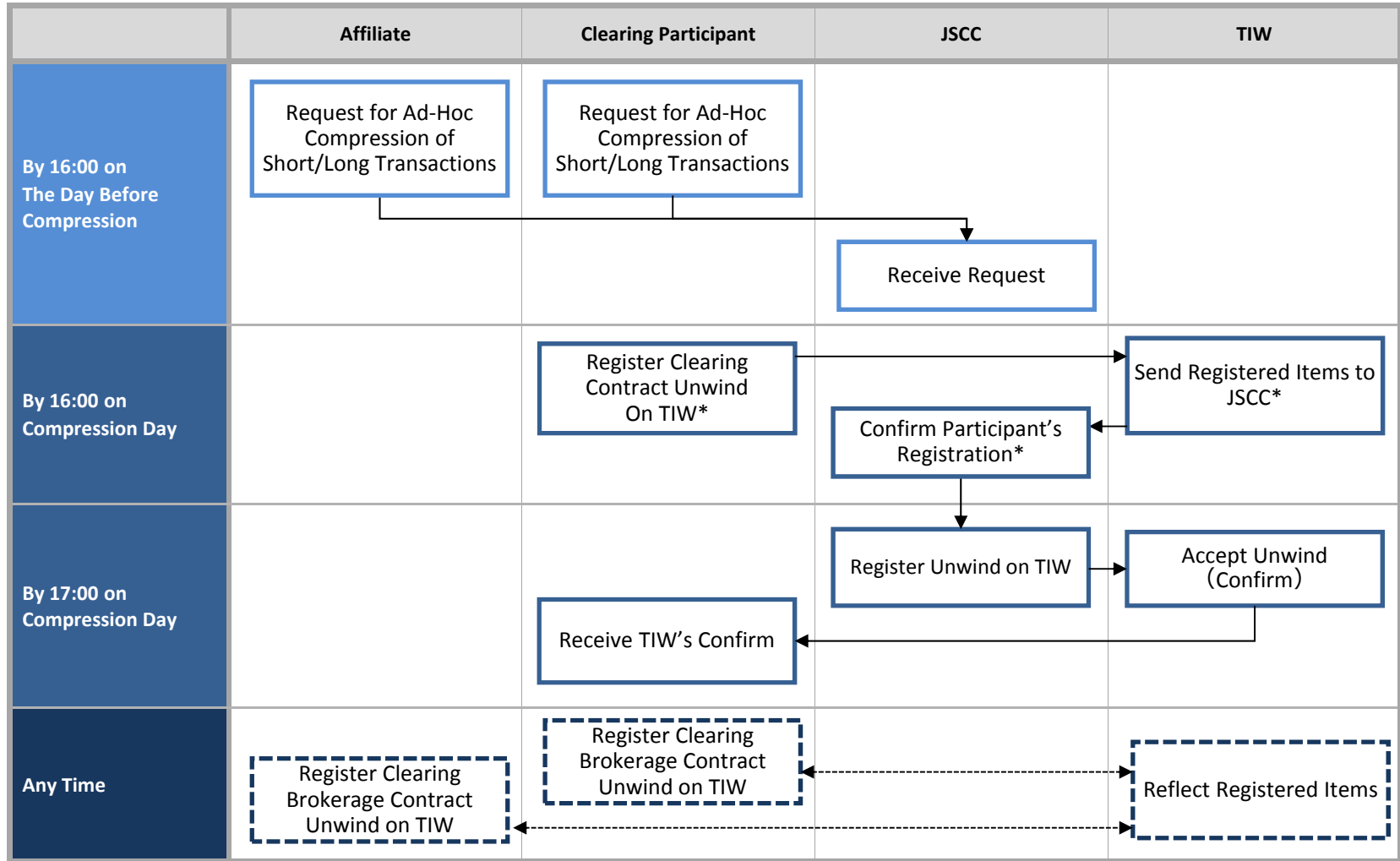
Item	Description	Remarks
Timing	of Financial Services Agency).	

End of Document

DISCLAIMER: This is the reference translation of the original Japanese document. Japan Securities Clearing Corporation shall accept no responsibility or liability for damage or loss caused by any error, inaccuracy, or misunderstanding with regard to this translation. This document may not be reproduced or redistributed in whole or in part without the permission of Japan Securities Clearing Corporation.

# Ad-Hoc Compression Operational Flow

Reference



\* Operations not required after April 2016 (scheduled).

DISCLAIMER: This is the reference translation of the original Japanese document. Japan Securities Clearing Corporation shall accept no responsibility or liability for damage or loss caused by any error, inaccuracy, or misunderstanding with regard to this translation. This document may not be reproduced or redistributed in whole or in part without the permission of Japan Securities Clearing Corporation.