

Partial Amendment of IRS Clearing System in conjunction with Addition of TIBOR Swap to Transactions Eligible for Clearing

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Japan Securities Clearing Corporation

I. Purpose

Necessary amendments will be made to the IRS Clearing system in order to add IRS transactions referencing TIBOR, which have a certain level of trading volume in JPY interest rate swaps market, as new Transactions Eligible for Clearing, and, in conjunction therewith, to elaborate the risk management system, for the purpose of expanding scope of IRS clearing business.

II. Outline

Item	Description	Remark
1. Transactions Eligible for Clearing to be Added	<ul style="list-style-type: none"> As new Transactions Eligible for Clearing, IRS transactions under which the floating rate is JPY TIBOR will be added. Having in mind the fact that Euro-Yen TIBOR (so called “ZTIBOR”), published by Japanese Bankers Association, is currently traded in the interbank market, eligible types of TIBOR shall be ZTIBOR. 	<ul style="list-style-type: none"> Japanese yen TIBOR (so called “DTIBOR”), TIBOR-TIBM (5 banks), and TIBOR-TIBM (10 banks) shall not be eligible.
	<ul style="list-style-type: none"> Periods for floating rate where clearing becomes eligible shall be 3M and 6M. 	<ul style="list-style-type: none"> Other periods shall not be eligible.
	<ul style="list-style-type: none"> Remaining maturity of Transactions Eligible for Clearing shall be 5 years for 3M and 10 years for 6M. 	<ul style="list-style-type: none"> Discussion will continue on future extension of remaining maturity of Transactions Eligible for Clearing, on the premises of straightening up risk management issues such as liquidity or capability of submission of reliable quotes, etc.

Item	Description	Remark
2. Yield Curves		
(1) Grid Points	<ul style="list-style-type: none"> Grid points submitted by Designated Clearing Participants as a reference value in quotes submission (see Annex 1) shall be the grid points to be used for construction of yield curve for 6M-TIBOR. Grid Points for 3M-TIBOR shall be as described in Annex 2. 	<ul style="list-style-type: none"> The same grid points as 3M-LIBOR.
(2) Sources of Quotes	<ul style="list-style-type: none"> At present, quotes on some grid points for 6M-TIBOR and quotes on all grid points for 3M-TIBOR cannot be obtained via brokers/dealers screen, etc. Therefore, quotes shall be obtained from: <ol style="list-style-type: none"> Brokers/Dealers (for grid points currently available), Clearing Participants holding positions, and Designated Clearing Participants related to quotes submission. The Clearing Participant shall be requested to submit quotes related to grid points corresponding to “Remaining Maturity of Transactions Eligible for Clearing” for each index for which Clearing Participants hold positions. 	<ul style="list-style-type: none"> In order to secure the sufficient number of quotes utilized for yield curve calculation, Clearing Participants holding positions will be requested to submit quotes (current 3M-LIBOR and 6M-LIBOR Swaps shall be ruled out). The Designated Clearing Participants related to quotes submission will be newly requested to submit quotes on 3M-TIBOR. Quotes regarding grid points corresponding to the tenor longer than “Remaining Maturity of Transactions Eligible for Clearing” set forth in 1 above will not be subject to mandatory submission and quotes submission for reference shall be requested only to the Designated Clearing Participants.
(3) Measures for Securing Reliability of Quotes	<ul style="list-style-type: none"> As measures for securing reliability of quotes, the current measure (i.e., Participant(s) submitted a quote that significantly diverges from the average as well as submitted no quotes will be subject to addition of clearing fees) shall apply. 	<ul style="list-style-type: none"> The Designated Clearing Participants that are to submit quotes of 6M-TIBOR (and 1M-LIBOR) for reference and the Clearing Participants that will be obliged to submit quotes by reason of holding positions shall be subject to the relevant measure (excluding quotes regarding grid points corresponding to the tenor longer than the Remaining Maturity of Transactions Eligible for Clearing). A certain Dry-Run period will be set before the implementation of the relevant measure.
3. Initial		

Item	Description	Remark
Margin		
(1) Calculation of Required Amount	<ul style="list-style-type: none"> Regardless of whether transactions refer to TIBOR or LIBOR, the Required Amount of IM will be calculated on a portfolio basis. 	<ul style="list-style-type: none"> Each parameter in FHS (Filtered Historical Simulation) VaR (such a reference period, holding period, confidence level, decay factor (λ) in EWMA, and volatility floor, etc.) to be used for calculation of the Required Amount shall be the same as that for the current LIBOR Swaps (6M, 3M).
(2) Raising IM according to Liquidity, etc. 1) Application Criteria for Raising IM and Calculation of Charge Amount 2) Setting Application Criteria, etc.	<ul style="list-style-type: none"> As for raising IM according to the liquidity, etc., the structure will be reviewed so that the characteristics of each product/tenor can be reflected more precisely. Tenor bucket will be set for each yield curve, and when the size of the risk related to the relevant bucket exceeds a certain criteria, IM will be raised. The charge amount to be applied when such risk amount exceeds the criteria will be calculated based on the spread of ask/bid established for each yield curve/tenor as a risk that may entail in the liquidation of positions. PV01 for each yield curve/tenor that constitutes the application criteria for raising IM and the spread of ask/bid (basis points) to calculate the charge amount will be set through the market survey (survey to Clearing Participants). 	<ul style="list-style-type: none"> Currently, IM shall be raised at a certain rate, when IM related to the portfolio exceeds a certain level. The criteria pertaining to the size of the risk will be established based on PV01. The specific charge amount will be calculated by multiplying the PV01 calculated for each yield curve/tenor by the basis points established as the spread of ask/bid for the relevant yield curve/tenor. In establishing the criteria, JSCC will draft a proposal based on the survey results and then consult with the Steering Committee to have the criteria determined. For setting specific criteria, while such determination is envisaged to be based on the spread of ask/bid in transactions expected in hedge transactions (such as basis swaps), the level of the criteria, etc. at the time of launch of the system shall be continuously reviewed by hearing opinions of each Participant.

Item	Description	Remark
3) Reassessment of Application Criteria, etc.	<ul style="list-style-type: none"> The specific charging criteria, etc, will be reassessed regularly (once in each quarter or so). 	<ul style="list-style-type: none"> When deemed necessary, such as time of a change of market environment, JSCC shall be entitled to reassess the criteria and the charge amount, on an ad hoc basis. Especially during a certain period of time after the launch of the clearing service, the level of the criteria, etc. shall be reassessed as needed.
4. Settlement in the Event of Participant's Default (Auction)	<ul style="list-style-type: none"> With regard to the auction in the event of Participant's default, all positions will be uniformly subject to the combined Auction, regardless of the type of Transactions Eligible for Clearing. 	
5. Stress Scenarios for Clearing Fund	<ul style="list-style-type: none"> The stress scenarios will be added taking into account the characteristics of Transactions Eligible for Clearing to be added. The stress scenarios so added will be reviewed once a year or so, keeping an eye on market environment. 	<ul style="list-style-type: none"> In more detail, by reference to the price fluctuation during the period in the past when the basis among products widened, scenarios when the basis further widened or the like will be generated. The stress scenarios at the launch of the system will be continuously discussed. When deemed necessary, such as time of a change of market environment, JSCC shall be entitled to reassess those stress scenarios, on an ad hoc basis.

III. Implementation Timing (plan)

These partial amendments shall come into effect from February 2013 (subject to approval of the Commissioner of Financial Services Agency).

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Grid Points for Construction of Yield Curve for 6M-TIBOR
(For Current Designated Clearing Participants)

Grid Points for 6M-TIBOR Swap	
Products	Rates
FRA (Fixing)	0 x 6, Tibor
FRA	1 x 7, Tibor
FRA	2 x 8, Tibor
FRA	3 x 9, Tibor
FRA	4 x 10, Tibor
FRA	5 x 11, Tibor
Basis Swap	1Y (6M vs 6M), T-L SP
Basis Swap	18M (6M vs 6M), T-L SP
Basis Swap	2Y (6M vs 6M), T-L SP
Basis Swap	3Y (6M vs 6M), T-L SP
Basis Swap	4Y (6M vs 6M), T-L SP
Basis Swap	5Y (6M vs 6M), T-L SP
Basis Swap	6Y (6M vs 6M), T-L SP
Basis Swap	7Y (6M vs 6M), T-L SP
Basis Swap	8Y (6M vs 6M), T-L SP
Basis Swap	9Y (6M vs 6M), T-L SP
Basis Swap	10Y (6M vs 6M), T-L SP
Basis Swap	12Y (6M vs 6M), T-L SP
Basis Swap	15Y (6M vs 6M), T-L SP
Basis Swap	20Y (6M vs 6M), T-L SP
Basis Swap	25Y (6M vs 6M), T-L SP
Basis Swap	30Y (6M vs 6M), T-L SP
Basis Swap	35Y (6M vs 6M), T-L SP
Basis Swap	40Y (6M vs 6M), T-L SP

Grid Points for Construction of Yield Curve for 3M-TIBOR

Grid Points for 3M-TIBOR Swap	
Products	Rates
FRA (Fixing)	0 x 3, Tibor
FRA	1 x 4, Tibor
FRA	2 x 5, Tibor
FRA	3 x 6, Tibor
FRA	4 x 7, Tibor
FRA	5 x 8, Tibor
FRA	6 x 9, Tibor
FRA	7 x 10, Tibor
FRA	8 x 11, Tibor
Basis Swap	1Y (3M vs 6M), Tibor
Basis Swap	18M (3M vs 6M), Tibor
Basis Swap	2Y (3M vs 6M), Tibor
Basis Swap	3Y (3M vs 6M), Tibor
Basis Swap	4Y (3M vs 6M), Tibor
Basis Swap	5Y (3M vs 6M), Tibor
Basis Swap	6Y (3M vs 6M), Tibor
Basis Swap	7Y (3M vs 6M), Tibor
Basis Swap	8Y (3M vs 6M), Tibor
Basis Swap	9Y (3M vs 6M), Tibor
Basis Swap	10Y (3M vs 6M), Tibor
Basis Swap	12Y (3M vs 6M), Tibor
Basis Swap	15Y (3M vs 6M), Tibor
Basis Swap	20Y (3M vs 6M), Tibor
Basis Swap	25Y (3M vs 6M), Tibor
Basis Swap	30Y (3M vs 6M), Tibor
Basis Swap	35Y (3M vs 6M), Tibor
Basis Swap	40Y (3M vs 6M), Tibor