

Outline of Scheme for Introducing Compression per Trade

April 7, 2015

Japan Securities Clearing Corporation

Item	Description	Remarks
1. Purpose	<ul style="list-style-type: none"> • The purpose is to introduce Compression per Trade (“CPT”), in place of Voluntary Termination, to enable termination of cleared trades without the consent of the other counterparty to the original trade prior to maturity, and to make necessary revisions to the current Bulk Compression (“BC”) procedures, including the introduction of Unlinked Trades Compression, to enhance convenience. 	<ul style="list-style-type: none"> • The current Voluntary Termination scheme (designed to terminate cleared trades based on agreement between the original counterparties prior to maturity) will be abolished.
2. Introduction of CPT	<ul style="list-style-type: none"> • CPT will be performed if it is confirmed that the House or Customer account (at the second tier level) containing the cleared trades submitted for CPT by a Clearing Participant also contain other cleared trades that are identical in terms of economic requirements (cleared trades eligible for CPT are hereinafter referred to as “CPT Eligible Trades”) as of 16:00 on a certain JSCC business day. • In the course of CPT, CPT Eligible Trades will be terminated prior to maturity and replaced with one new cleared trade which will be identical in terms of economic requirements, such as fixed and floating interest rates. 	<ul style="list-style-type: none"> • For trades of Customers (Affiliates and Clients), Clearing Brokers will apply for CPT to JSCC upon request from Customers. • Consent of the other counterparty to the original trade will not be required. • For specific predefined economic requirements for CPT Eligible Trades, see Annex 1. • Cleared trades denominated in yen and foreign currency will be both eligible for CPT. • CPT may be limited to terminating a CPT Eligible Trades prior to maturity depending on which economic requirements it has met. For specific processes of CPT, see Annex 2. • Cleared trades terminated prior to maturity and newly established

Item	Description	Remarks
	<ul style="list-style-type: none"> • 	cleared trades through CPT will not be reflected on MarkitWire.
3. Revision of BC procedures	<ul style="list-style-type: none"> • The current Bulk Compression procedures will be revised to enable BC without the consent of the other counterparty to the original trade in an effort to extend the scope of BC eligible trades. • The affirmation of cleared trades newly established through BC will no longer be conducted using MarkitWire. 	<ul style="list-style-type: none"> • The revised BC procedures will be conducted using TriOptima's Unlinked Trades Compression service. A sample BC process flow can be found in Annex 3. • Cleared trades denominated in yen and foreign currency will be both eligible for BC. • JSCC will continue discussions on the timing of implementing the revised BC and details of operation flows. • Cleared trades terminated prior to maturity and newly established cleared trades through BC will not be reflected on MarkitWire.
4. Timing of Implementation	<ul style="list-style-type: none"> • The proposed scheme will be introduced by September 2015 (subject to approval by Commissioner of the Financial Services Agency). 	

End of Document

Predefined Economic Conditions for CPT Eligible Trades

1. Prerequisites for Compression per Trade

- ✓ The trade is cleared.
- ✓ No interest settlement is due on the day or the following business day.
- ✓ All Up-Front Fees have been settled.

2. Predefined Economic Conditions for CPT Eligible Trades

(1) Items used as matching conditions at trade level

- ✓ Trade currency (→Perform netting per trade)
- ✓ Combination of floating rates for both sides
- ✓ Maturity date

*Items not used as matching conditions at trade level

- ✓ Trade date
- ✓ Effective date
- ✓ Counterparty to original trade
- ✓ Clear date
- ✓ Notional Principal (→eligible for netting)

(2) Items used as matching conditions at fixed/floating side level

[Common to fixed/floating sides]

- ✓ Current Interest Period Start Date
- ✓ Current Interest Period Payment Date
- ✓ Day Count Convention
- ✓ Roll Date Convention
- ✓ Roll Date
- ✓ Stub Type (Long/Short)
- ✓ Stub Type (Start/End)
- ✓ End Date
- ✓ End Date Adjust Convention
- ✓ End Date Adjust Holiday
- ✓ Payment Frequency
- ✓ Payment Date Adjust Convention
- ✓ Payment Date Adjust Holiday
- ✓ Calculation Period Frequency

[Specific to floating side]

- ✓ Rate Index
- ✓ Rate Index Tenor
- ✓ Spread
- ✓ Compounding Method
- ✓ Rate Fixing Holiday
- ✓ Rate Fixing Days Offset
- ✓ Stub Rate Tenor 1
- ✓ Stub Rate Tenor 2

[Specific to fixed side]

- ✓ Fixed rate

Specific Processes of CPT

◆ Before CPT

Trade ID	Trades with required economic conditions	Notional amount	Pay/Rec	Request for Compression from Participant	Trade status
1	Trade IDs 1, 2 and 3	JPY 3B	Pay	Y	Cleared
2		JPY 3B	Pay	Y	Cleared
3		JPY 5B	Rec	Y	Cleared
4	Trade IDs 4 and 5	JPY 3B	Pay	Y	Cleared
5		JPY 3B	Rec	Y	Cleared
6	Trade IDs 6 and 7	JPY 2B	Rec	Y	Cleared
7		JPY 1B	Rec	Y	Cleared
8	Trade IDs 8 and 9	JPY 1B	Pay	Y	Cleared
9		JPY 1B	Rec	N	Cleared

◆ After CPT

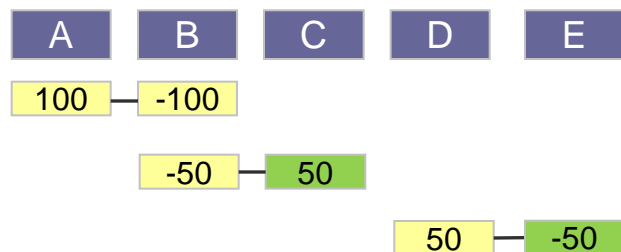
Trade ID	Trades with required economic conditions	Notional amount	Pay/Rec	Request for Compression from Participant	Trade status
1	Trade IDs 1, 2 and 3	JPY 3B	Pay	Y	Cleared
2		JPY 3B	Pay	Y	Cleared
3		JPY 5B	Rec	Y	Cleared
10	—	JPY 1B	Pay	Y/N (Depending on settings by Participant)	Cleared
4	Trade IDs 4 and 5	JPY 3B	Pay	Y	Cleared
5		JPY 3B	Rec	Y	Cleared
6	Trade IDs 6 and 7	JPY 2B	Rec	Y	Cleared
7		JPY 1B	Rec	Y	Cleared
11	—	JPY 3B	Rec	Y/N (Depending on settings by Participant)	Cleared
8	Trade IDs 8 and 9	JPY 1B	Pay	Y	Cleared
9		JPY 1B	Rec	N	Cleared

Compression per Trade will produce either of the following results:

- Trade IDs 1, 2 and 3 are terminated prior to maturity and a new trade with the equivalent post-netting notional amount (Trade ID 10) is established.
- Trade IDs 4 and 5 are terminated prior to maturity (no new trade is established)
- Trade IDs 6 and 7 are terminated prior to maturity and a new trade with the equivalent post-netting notional amount (Trade ID 11) is established.
(Since Trade IDs 6 and 7 are both Rec, the new trade (Trade ID 11) has the notional amount equal to the total of notional amounts for Trades 6 and 7)
- Trade IDs 8 and 9 remain unchanged after CPT as they contain trades for which CPT is not requested.

Revision of Bulk Compression (Sample)

[Status of Cleared Trades before CPT]



*The trades shown above all have the same economic conditions.

Participant name

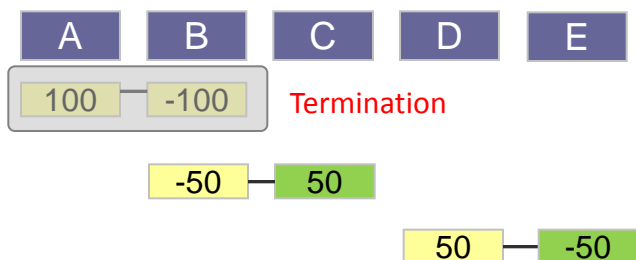
Notional amount

Trades submitted for Compression

Notional amount

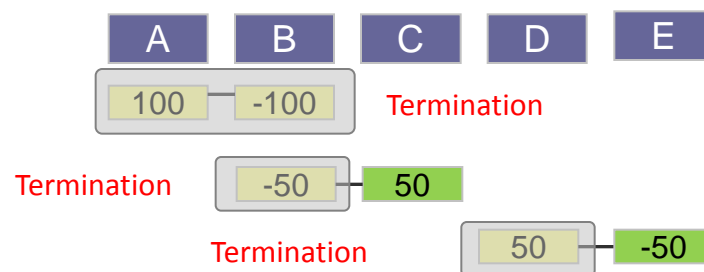
Trades not submitted for Compression

[Termination through current CPT]



Trades may be terminated only if both counterparties to the original trade submit them for BC.

[Termination through revised CPT]



Trades may be terminated regardless of whether the other counterparty to the original trade submit them for BC.