

## Outline related to Introduction of Cross Margining

February 10, 2015  
Japan Securities Clearing Corporation

Item	Overview	Remarks
1. Purpose	<ul style="list-style-type: none"> <li>• The purpose of introducing Cross Margining is to enable offsetting of risks related to different eligible trades (hereinafter referred to as “Cross Margining”) and reduce the burden of collateral obligations on IRS Clearing Participants and IRS Customers.</li> <li>• Specifically, the IRS margining method (Expected Shortfall Method) will be applied to the calculation of the required amounts of Initial Margin and Intraday Margin for positions in JGB Futures eligible for Cross Margining (“Cross Margined JGB Futures”) along with positions in IRS Transactions.</li> </ul>	
2. Scope of Cross Margining (1) Eligible Trades	<ul style="list-style-type: none"> <li>• Cross Margining shall be made available for positions in the following transactions for which JSCC bears or assumes obligations;               <ul style="list-style-type: none"> <li>a. IRS Transactions</li> <li>b. JGB Futures Contracts The First and Second Contract Months of 10-year JGB Futures (Large and Mini Contracts)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Whether to add 20-year JGB Futures as an eligible trade will be discussed separately considering the situation of cross margining transactions.</li> </ul>

Item	Overview	Remarks
(2) Types of Margin Covered by Cross Margined	<ul style="list-style-type: none"> <li>▪ Margin covered by Cross Margining shall be Initial Margin and Intraday Margin for positions in IRS Transactions, and Margin for positions in JGB Futures.</li> <li>▪ Initial Margin and Intraday Margin for IRS Transactions shall be calculated in association with positions in Cross Margined JGB Futures.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Variation Margin related to IRS positions, and initial mark-to-market result and net difference to previous day related to JGB Futures Contracts will not be covered under Cross Margining.</li> <li>▪ Payment and receipt of Variation Margin related to IRS positions will be settled between JSCC and IRS Clearing Participant, and payment and receipt of initial mark-to-market result and net difference to previous day related to Cross Margined JGB Futures positions will be settled between JSCC and JGB Futures Clearing Participant. (See Item #9)</li> </ul>
(3) Scope of Persons Eligible for Using Cross Margining	<ul style="list-style-type: none"> <li>▪ Persons eligible for using Cross Margining are Clearing Participants and Customers (that are Affiliates. The same shall apply hereinafter) in IRS Transactions which are trading in JGB Futures as JGB Futures Clearing Participant or through a JGB Futures Clearing Participant belonging to the same Corporate Group. (See Reference 1)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Positions subject to Cross Margining will be limited to IRS Clearing Participants' or IRS Customers' own positions.</li> <li>▪ On the basis of scope of users specified on the left, JSCC will sort out points that need to be addressed from legal aspect.</li> <li>▪ A possible expansion of scope of users (including Clients) after structure launch will continue to be discussed after preparation of this Outline.</li> </ul>

Item	Overview	Remarks
3. Advance Notification concerning Use of Cross Margining	<ul style="list-style-type: none"> <li>An IRS Clearing Participant shall file notification on items prescribed by JSCC in respect of persons using Cross Margining (hereinafter referred to as “Cross Margining User”) in advance to JSCC.</li> </ul>	<ul style="list-style-type: none"> <li>If a Cross Margining User is not a Clearing Participant in IRS Transactions or JGB Futures Contracts, the notification shall be filed after obtaining Clearing Participant’s consent on utilization of Cross Margining.</li> </ul>

Item	Overview	Remarks
<p>4. Application for and Approval of Cross Margining</p>	<ul style="list-style-type: none"> <li>• JGB Futures Clearing Participant shall apply to JSCC for covering specified positions in JGB Futures Contracts under Cross Margining.</li> <li>• JSCC will notify the IRS Clearing Participant which agreed with JGB Futures Clearing Participant on utilization of Cross Margining in advance, of the contents of the above application.</li> <li>• An IRS Clearing Participant received notification from JSCC of the contents of the above application shall give notice to JSCC of its acceptance or rejection of such application.</li> <li>• JSCC will cover positions in JGB Futures Contracts, for which Cross Margining is accepted, under Cross Margining.</li> <li>• Application for Cross Margining mentioned above shall be submitted by 6:20 p.m., and the notification of acceptance or rejection of the application to JSCC shall be given by 6:30 p.m.</li> <li>• Application for and acceptance of Cross Margining shall be made every business day.</li> </ul>	<ul style="list-style-type: none"> <li>• If the Cross Margining User is not a JGB Futures Clearing Participant, it shall file the application through a JGB Futures Clearing Participant consented to utilization of Cross Margining in advance.</li> <li>• JSCC will not accept applications from multiple JGB Futures Clearing Participants for Cross Margining involving the same Cross Margining User.</li> <li>• If the Cross Margining User is not an IRS Clearing Participant, it shall accept the application through an IRS Clearing Participant consented to utilization of Cross Margining in advance.</li> <li>• Application for Cross Margining may be submitted after completion of JGB Futures position fixing process (around 5:30, p.m.).</li> <li>• By giving prior notification, an IRS Clearing Participant may arrange to have Cross Margining application from certain users approved automatically.</li> </ul>

Item	Overview	Remarks
<p>5. Restrictions on Application for Cross Margining</p>	<ul style="list-style-type: none"> <li>• There are following restrictions on an application for Cross Margining:               <ul style="list-style-type: none"> <li>(i) Quantity of JGB Futures Contracts available for Cross Margining request                   <ul style="list-style-type: none"> <li>• Cross Margining request with quantity exceeding the JGB Futures position held by the Cross Margining User is unacceptable.</li> </ul> </li> <li>(ii) Initial Margin requirement reduction effect                   <ul style="list-style-type: none"> <li>• Cross Margining may only be applied for when reduction effect of IRS Initial Margin requirement can be confirmed;</li> </ul> </li> <li>(iii) Window opened for application of Cross Margining related to JGB Futures Contracts                   <ul style="list-style-type: none"> <li>• Period during which Cross Margining can be applied for in respect of JGB Futures Contracts is up to 3 business days prior to the last trading day.</li> </ul> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• If the Cross Margining User is not a JGB Futures Clearing Participant, the JGB Futures Clearing Participant obtained a consent of the Cross Margining User in advance shall check consistency between position quantity held by the Cross Margining User and the position quantity subject to Cross Margining.</li> <li>• The reduction effect shall be confirmed based on the results of trial calculations by JSCC at the time of application.</li> <li>• Treatment on the left shall be implemented from view point of convenience of Cross Margining Users at the time of Contract Month rollover, as well as view point of smooth default settlement.</li> </ul>

Item	Overview	Remarks
	<ul style="list-style-type: none"> <li data-bbox="517 264 1352 466">•</li> </ul>	<ul style="list-style-type: none"> <li data-bbox="1375 264 2101 458">• Trading in mini contracts for 10-year JGB Futures will be closed one day before the last trading day of large contract for 10-year JGB Futures with the same contract month. Therefore, Cross Margining for mini contracts may be applied for up to 2 business days prior to the last trading day.</li> </ul>

Item	Overview	Remarks
<p>6. Treatment of Position Transfer Request and Various Revisions in JGB Futures Contracts when Cross Margining is Used</p>	<ul style="list-style-type: none"> <li>• Position transfer request and various requests in JGB Futures Contracts at the time when Cross Margining is used shall be handled in a following manner:               <ul style="list-style-type: none"> <li>(i) Handling of Position Transfer Request                   <ul style="list-style-type: none"> <li>• For positions related to JGB Futures Contracts for which Cross Margining is applied for and accepted, no position transfer request on the same day shall be accepted.</li> </ul> </li> <li>(ii) Handling of Various Revisions in JGB Futures Contracts                   <ul style="list-style-type: none"> <li>• For positions related to JGB Futures Contracts for which Cross Margining is applied for and accepted, no revision (such as revision of proprietary/customer classifications, revision of offsetting sale/purchase classifications and revision of give-up) shall be permitted.</li> </ul> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Specifically, if the quantity of positions for which position transfer is requested exceeds the quantity of positions remaining after deducting the positions for which Cross Margining is applied for and accepted on the date of position transfer request, JSCC will not accept such position transfer request.</li> <li>• For positions in JGB Futures Contracts for which position transfer is requested, Cross Margining may be applied for on or after the date on which position transfer becomes effective (next day following the date of request) through transferee Clearing Participant.</li> </ul>

Item	Overview	Remarks
7. Notification of Initial Margin Requirement	<ul style="list-style-type: none"> <li>• JSCC shall calculate the required amount of Initial Margin for cleared IRS Transactions as of 4:00 p.m. every business day and notify IRS Clearing Participants of the amount by 5:30 p.m. on the same day.</li> <li>• Then, JSCC shall calculate the required amount of Initial Margin for combined positions of JGB Futures Contracts for which Cross Margining is applied for and accepted and IRS Transactions, and notify IRS Clearing Participants again around 7:30 p.m.</li> <li>• Cross Margining shall become effective upon satisfaction of Margin requirement (Initial Margin equivalent and Variation Margin equivalent (shortfall in cash settlement amount shall be added, if any)) notified around 7:30 p.m. (See Reference 2)</li> </ul>	<ul style="list-style-type: none"> <li>• Margin for JGB Futures Contracts shall be calculated after deducting positions in Cross Margined JGB Futures, and notified to JGB Futures Clearing Participant around 7:30 p.m.</li> <li>• After Cross Margining takes effect, if a Cross Margining User or a Clearing Participant applying for or accepting Cross Margining defaults, positions in Cross Margined JGB Futures will be settled according to the framework for IRS Clearing Business (See Item #12 to 14).</li> </ul>



Item	Overview	Remarks
8. Initial Margin Calculation Method	<ul style="list-style-type: none"> <li>• The required amount of Initial Margin shall be an amount that sufficiently covers the average of top 1% of losses expected from changes in net present value, which is derived by applying market data to each of the scenarios that are generated based on changes in market data during a period of the past 1,250 days (reference period) and the stress event scenarios that are generated based on past market events, with regard to positions held by IRS Clearing Participants as of 4:00 p.m. each business day and positions in JGB Futures to be covered by Cross Margining.</li> <li>• For change in market data for each period, scenarios will be generated based on change over 5 days.</li> <li>• For Cross Margined JGB Futures, Liquidity Charge will be added to Initial Margin requirements according to the sensitivity against JGB yield curves.</li> </ul>	<ul style="list-style-type: none"> <li>• JSCC will generate historical scenarios based on changes in clearing prices for Cross Margined JGB Futures.</li> <li>• Basis risk for IRS and JGB Futures will be reflected by changing the data independently when generating each such scenario.</li> <li>• Covered period of, and number of scenarios to be added in respect of, stress event scenarios will be the same as those adopted for IRS.</li> <li>• Liquidity Charge framework will be the same as that currently adopted for IRS, and with respect to JGB Futures, Liquidity Charge will be calculated to cover basis risk between JGB yield curve and 6M LIBOR.</li> <li>• As to market liquidity risk at stressed situation, covering of which is currently under review for IRS, the same treatment will also apply to Cross Margined positions.</li> </ul>

Item	Overview	Remarks
9. Treatment of Variation Margin	<ul style="list-style-type: none"> <li>• Variation Margin for positions in IRS Transactions shall be paid or received between JSCC and IRS Clearing Participants.</li> <li>• The initial mark-to-market result and net difference to previous day with regard to positions in Cross Margined JGB Futures shall be paid or received between JSCC and JGB Futures Clearing Participants.</li> </ul>	<ul style="list-style-type: none"> <li>• See Item #2. (2).</li> </ul>
10. Intraday Margin Calculation Method	<ul style="list-style-type: none"> <li>• The required amount of Intraday Margin shall be Initial Margin equivalent recalculated using the most recent market data on positions in IRS Clearing Participant's IRS and Cross Margined JGB Futures as of noon on each business day after adding/subtracting Variation Margin equivalent recalculated using the most recent market data on positions in the IRS Clearing Participant's IRS Transactions.</li> </ul>	<ul style="list-style-type: none"> <li>• The calculation of Margin in accordance with SPAN in respect of Intraday Margin requirement for JGB Futures Contracts shall be based on positions remaining after excluding Cross Margined positions.</li> </ul>
11. Clearing Fund Calculation Method	<ul style="list-style-type: none"> <li>• The required amount of the Clearing Fund for IRS Transactions shall be calculated, as an amount to cover anticipated losses under stressed conditions, by prorating the total amount of risk exceeding the collateral for positions including Cross Margined JGB Futures, at top two Clearing Participants in terms of such risk amount based on the required amount of Initial Margin for each Clearing Participant.</li> </ul>	<ul style="list-style-type: none"> <li>• Clearing Fund calculation method shall be determined in line with the revision of Clearing Fund structure for IRS.</li> <li>• Clearing Fund requirements will be notified around 8:30 p.m.</li> </ul>

Item	Overview	Remarks
<p>12. Cross Margined Portfolio Settlement Scheme upon Default</p> <p>(1) Upon Default of Cross Margining User which is IRS Clearing Participant</p> <p>(i) Hedging Portfolio Risk and Liquidation of Portfolio</p>	<ul style="list-style-type: none"> <li>• Upon Default of Cross Margining User which is IRS Clearing Participant, JSCC will promptly grasp details of such Cross Margining User's portfolio (i.e., IRS Transactions and Cross Margined JGB Futures) and hedge risks as necessary.</li> <li>• When hedging portfolio risk, risk offsetting position between IRS Transactions and JGB Futures Contracts will be hedged as the same combined position.</li> <li>• If there remain positions in JGB Futures Contracts which are difficult to be liquidated through above method, risk hedge related to such remaining positions shall be conducted by structuring IRS Transactions with the same risk amounts as the said positions at the same timing as the liquidation of such positions in JGB Futures Contracts (offsetting sale/purchase through on-floor trading).</li> </ul>	<ul style="list-style-type: none"> <li>• Cases # 1-1 and # 2-1 in Reference 3.</li> <li>• See Reference 4 for typical time line for liquidation of Cross Margining User's portfolio.</li> <li>• Specifically, JSCC will ask quote for combined position of two products, and execute IRS Hedge Transaction and liquidate JGB Futures Contract (offsetting sale or purchase through off-floor trading) with the Participant submitted best price. Details of risk hedge measures will be discussed at IRS Default Management Committee.</li> </ul>

Item	Overview	Remarks
<p>(ii) Auction for IRS Transactions</p> <p>(iii) Management of Failed Auctions</p>	<ul style="list-style-type: none"> <li>• Transactions subject to auction for IRS Transactions shall be positions in IRS Transactions held by a defaulted Cross Margining User and positions related to risk hedge transactions, including positions newly built together with liquidation of positions in respect of Cross Margined JGB Futures.</li> <li>• If an amount equivalent to losses that JSCC would incur in Default settlement and should be covered using the loss compensation financial resources allocated to JPY-denominated IRS Transactions turns out to exceed such financial resources as a result of liquidation of Cross Margined JGB Futures and an auction for IRS Transactions, JSCC and IRS Clearing Participants shall promptly discuss measures to address the issue.</li> <li>• If an agreement on relevant measures is reached through consultation, the measures so agreed shall apply for the settlements.</li> <li>• If no agreement is reached through consultation, the auction related to JPY-denominated IRS Transactions shall be failed, and positions in all JPY-denominated IRS Transactions of all IRS Clearing Participants are subject to Early Termination.</li> </ul>	<ul style="list-style-type: none"> <li>• Auctions for IRS other than the one mentioned on the left shall be performed using existing methods.</li> <li>• The amount that should be covered using the loss compensation financial resources allocated to JPY-denominated IRS Transactions refers to the full amount of losses from the disposition of position in JPY-denominated IRS Transactions and part of losses from the disposition of Cross Margined JGB Futures positions (to be capped at the amount of 1st to 4th Tier loss compensation financial resources allocated to JPY-denominated IRS Transactions to be applied to the Cross Margined JGB Futures determined according to ratio of final loss attributable to Cross Margined JGB Futures).</li> </ul>

Item	Overview	Remarks
(2) Upon Default of Cross Margining User which is IRS Customer	<ul style="list-style-type: none"> <li>▪ Upon Default of Cross Margining User which is IRS Customer, JSCC will promptly grasp details of Cross Margined JGB Futures positions of such Cross Margining User and liquidate Cross Margined JGB Futures by replacing such positions with IRS Transactions with the same risk amount.</li> <li>▪ Detailed position liquidation method shall be subject to Item #12. (1) (i) above.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Cases #3-1, #4-1 and #5-1 in Reference 3.</li> <li>▪ Detailed liquidation conditions, etc. will be discussed by calling for IRS Default Management Committee meeting.</li> <li>▪ IRS positions held by defaulted Cross Margining User shall not be disclosed to IRS Default Management Committee.</li> <li>▪ Hedge Transactions covering entire portfolio (Cross Margined JGB Futures and IRS Transactions) held by the defaulted Cross Margining User will be executed by IRS Clearing Broker as necessary.</li> </ul>

Item	Overview	Remarks
<p>(3) Upon Default of Clearing Participant Applying for or Accepting Cross Margining</p> <p>(i) Upon Default of IRS Clearing Broker Accepting Cross Margining</p> <p>(ii) Upon Default of JGB Futures Clearing Participant Applying for Cross Margining</p>	<ul style="list-style-type: none"> <li>• Upon Default of IRS Clearing Broker accepting Cross Margining, JSCC will, together with liquidation of such Defaulting Clearing Participant's portfolio, hedge risks associated with Cross Margining User's portfolio (IRS Transactions and Cross Margined JGB Futures) according to procedures described in Item #12. (1), (i) through (iii).</li> <li>• Upon default of JGB Futures Clearing Participant applying for Cross Margining, JSCC will liquidate JGB Futures positions of the Cross Margining User according to the procedures described in Item #12. (2).</li> </ul>	<ul style="list-style-type: none"> <li>• Upon Default of Clearing Participant applying for or accepting Cross Margining, Position Transfer of neither IRS Transactions nor Cross Margined JGB Futures by Cross Margining User shall be permitted.</li> <li>• Cases #3-2, #4-2 and #5-2 in Reference 3.</li> <li>• Cases #2-2 and #5-3 in Reference 3.</li> </ul>

Item	Overview	Remarks
13. Treatment of Claims and Obligations in Cross Margined Portfolio upon Default	<ul style="list-style-type: none"> <li>Upon Default of a Cross Margining User or a Clearing Participant applying for or approving Cross Margining, claims and obligations after Default in relation to Cross Margining User's IRS Transactions and positions in Cross Margined JGB Futures, and IRS Transaction newly structured according to the procedures described in Item #12, shall be attributed to IRS Clearing Business.</li> </ul>	<ul style="list-style-type: none"> <li>Mark-to-Market differences related to Cross Margined JGB Futures liquidated upon Default that are fixed after Default shall be attributed to IRS Clearing Business. On the other hand, outstanding differences fixed before Default shall be attributed to Clearing Business related to JGB Futures, etc.</li> </ul>

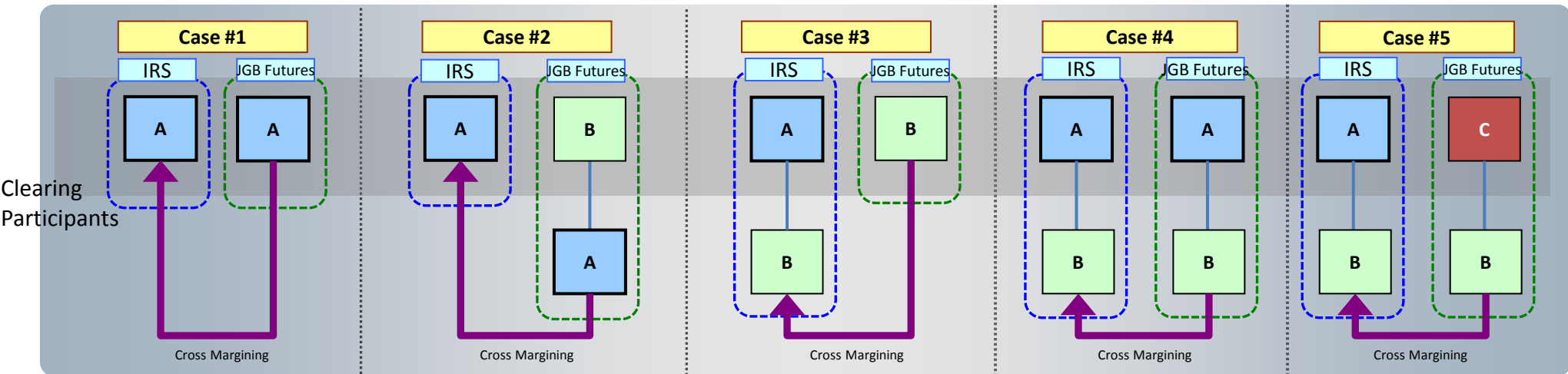
Item	Overview	Remarks
14. Loss Compensation Framework	<ul style="list-style-type: none"> <li data-bbox="517 261 1352 528">• Upon Default of IRS Clearing Participant which is a Cross Margining User or IRS Customer which is a Cross Margining User, losses arising from positions in such Cross Margining User's JPY-denominated IRS Transactions and Cross Margined JGB Futures shall be covered by 1st to 4th Tiers of loss compensation financial resources allocated to JPY-denominated IRS Transactions.</li> <li data-bbox="517 560 1352 948">• If the amount of such losses exceeds the amount of the 1st to 4th Tiers of loss compensation financial resources allocated to JPY-denominated IRS Transactions, such excess shall be allocated to each business according to the final loss attributable to position in JPY-denominated IRS Transactions and position in JGB Futures, and shall be compensated using the 5th Tier of loss compensation financial resources for IRS Clearing Business in respect of losses allocated to JPY-denominated IRS Transactions and by using loss compensation financial resources for JGB Futures in respect of losses allocated to JGB Futures Clearing Business.</li> <li data-bbox="517 979 1352 1246">• Losses from JGB Futures allocated as mentioned above to JGB Futures Clearing Business shall be compensated by a JGB Futures Clearing Participant who has applied for Cross Margining with respect to JGB Futures positions. If the default of the JGB Futures Clearing Participant is determined, the losses shall be compensated using loss compensation financial resources for JGB Futures Clearing Business. (See References 5 and 6)</li> </ul>	



Item	Overview	Remarks
15. Position Transfer of IRS Transactions after Introduction of Cross Margining	<ul style="list-style-type: none"> <li>▪ After introduction of Cross Margining scheme, in order to fix positions related to IRS Transactions before commencement of Cross Margining application, Position Transfer of IRS Transactions shall be completed around 4:30 p.m.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Position Transfer request may be submitted by 1:00 p.m., which remains unchanged.</li> </ul>
16. Fees	<ul style="list-style-type: none"> <li>▪ Fees shall be charged for using the Cross Margining.</li> </ul>	<ul style="list-style-type: none"> <li>▪ This subject will be discussed sometime in the future at the IRS Management Committee.</li> </ul>
17. Implementation Timing	<ul style="list-style-type: none"> <li>▪ Around September 2015. (Subject to Authorization of Commissioner of Financial Services Agency.)</li> </ul>	

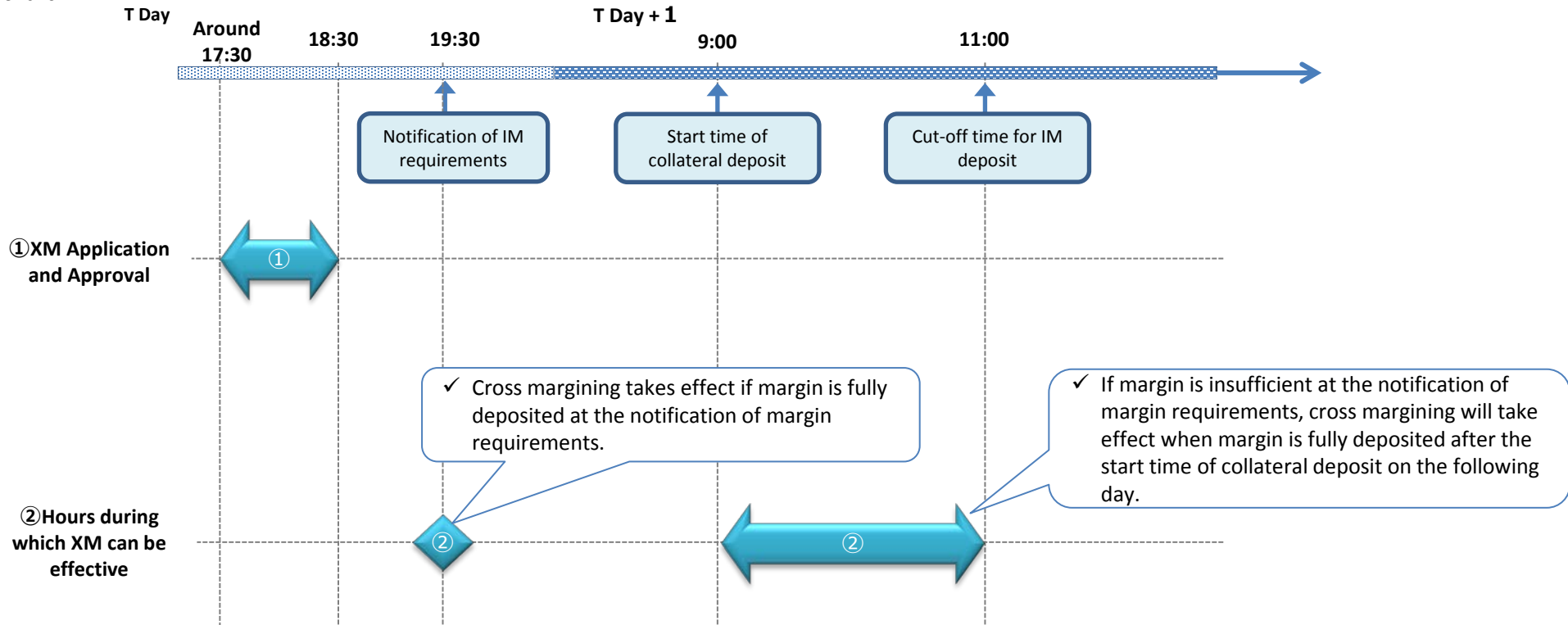
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- Cross Margining is available in Cases #1 to 5, as shown below.
  - Cross Margining is available only for positions held by the same entity.
  - For a Customer's positions, as shown in Cases #2 to 5 below, Cross Margining is available on condition that the Clearing Participants and the Customers in the two product areas belong to the same corporate group\*.  
**(The groups A, B and C in the figure below all belong to the same corporate group.)**
- \* See the definition of corporate group specified in the Interest Rate Swap Clearing Business Rules



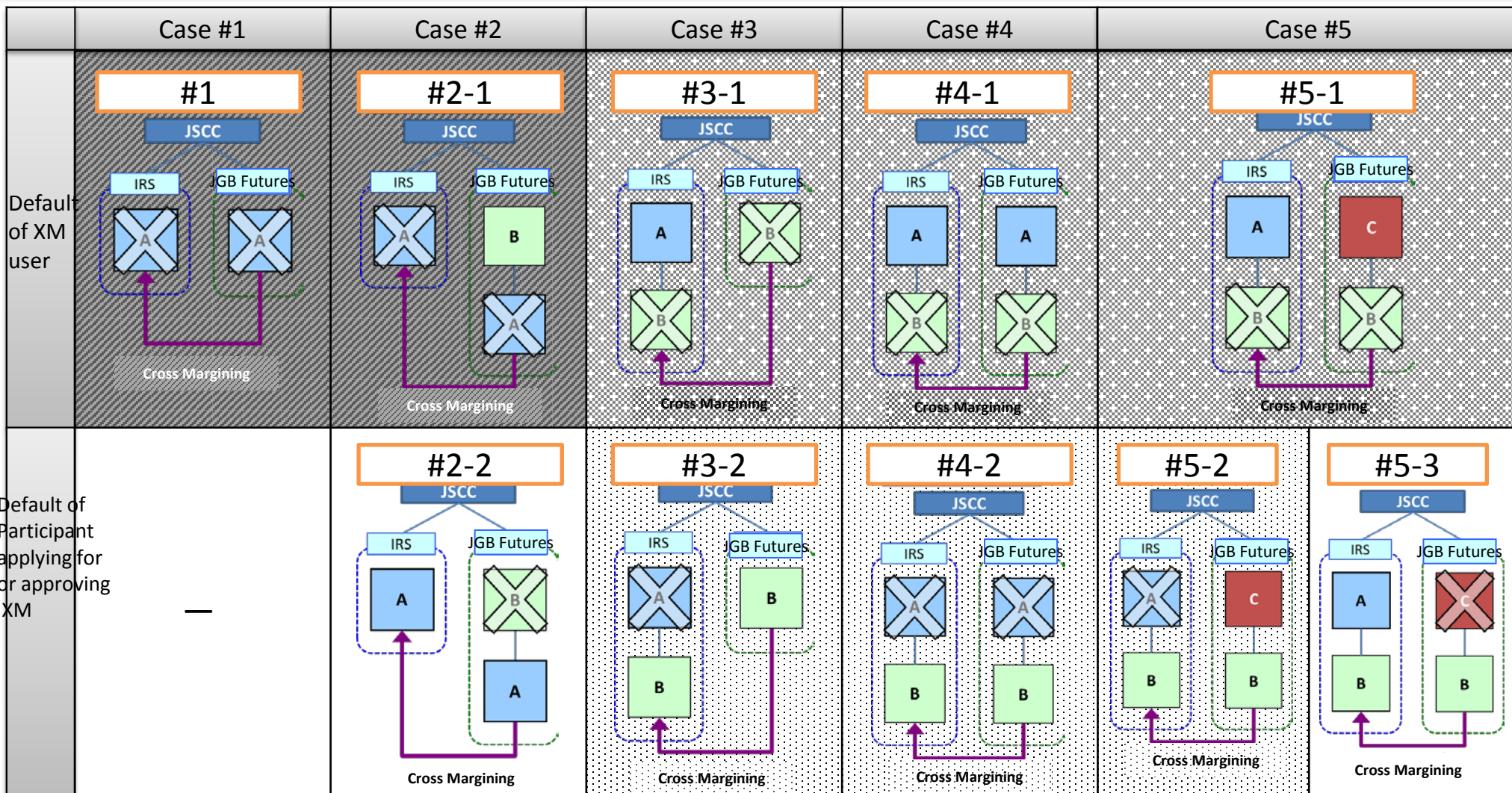
- Cross Margining will take effect only if margin is fully deposited – the same requirement as for IRS clearing.

<Flow chart>



# Default Patterns in relation to Cross Margining

Reference 3



(#1, # 2-1)

(#3-1, #4-1, #5-1)

(#3-2, #4-2, #5-2)

(#2-2, #5-3)

Item 12 (1), Outline related to Introduction of Cross Margining : Upon Default of Cross Margining User which is IRS Clearing Participant

Item 12 (2), Outline related to Introduction of Cross Margining : Upon Default of Cross Margining User which is IRS Customer

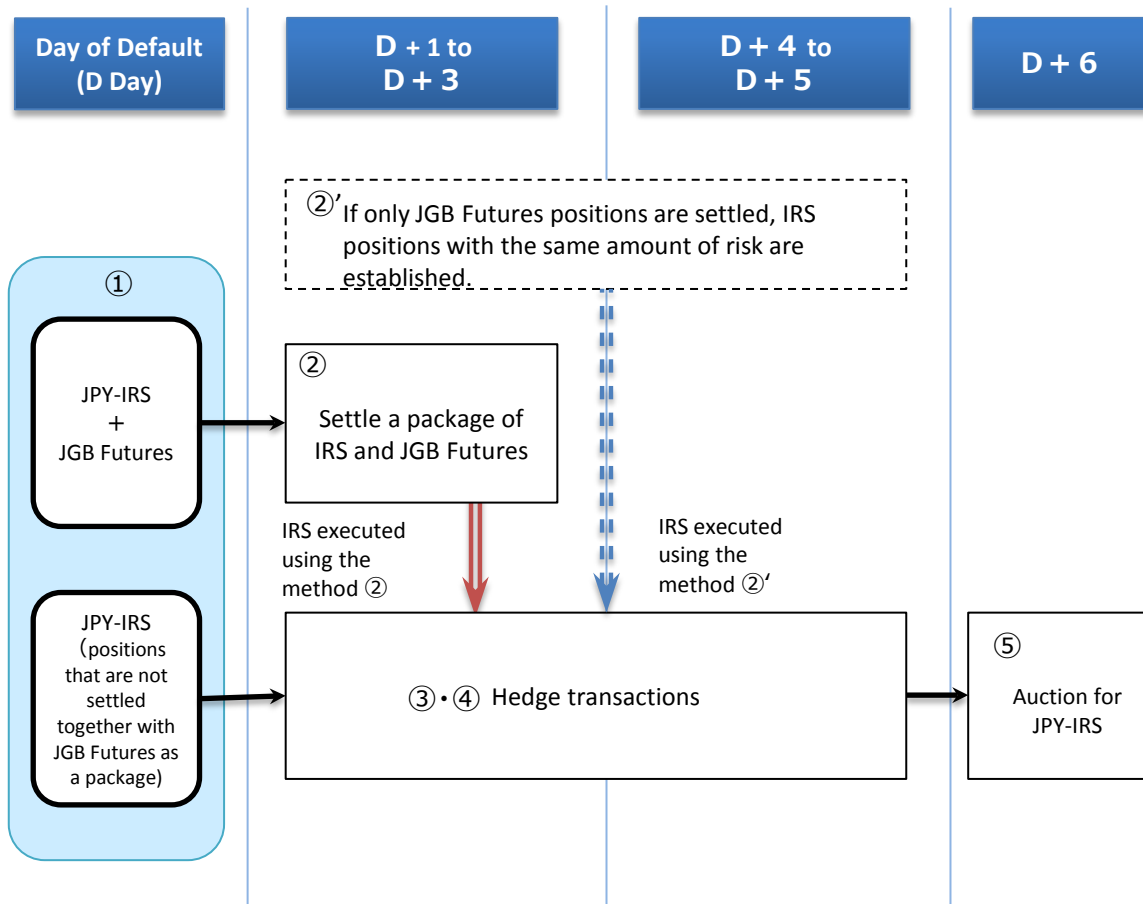
Item 12 (3) (i), Outline related to Introduction of Cross Margining : Upon Default of IRS Broker Accepting Cross Margining

Item 12 (3) (ii), Outline related to Introduction of Cross Margining: Upon Default of JGB Futures Clearing Participant Applying for Cross Margining

- The chart below shows the standard timeline of portfolio settlement in the event of the default of a Clearing Participant using cross margining.

<Standard timeline for portfolio settlement>

When a default occurs after the clearing process on D Day



Overview	
①	<ul style="list-style-type: none"> <li>The IRS Default Management Committee classifies the positions in the portfolio held by a defaulting Participant using cross margining into either a risk-offset package of IRS and JGB Futures or a set of IRS positions that will go through the hedge process.</li> </ul>
②	<ul style="list-style-type: none"> <li>The committee receives inquiries for IRS and JGB Futures positions as packages and settles JGB Futures positions.</li> <li>This must be implemented in D + 3 days to allow time for settlement in case such packages cannot be settled.</li> </ul>
②'	<ul style="list-style-type: none"> <li>If some JGB Futures positions were not settled in ②, they are settled using the method of separately building IRS positions with the same amount of risk.</li> </ul>
③	<ul style="list-style-type: none"> <li>For IRS positions that go through the hedge process separately from JGB Futures positions, hedge transactions are executed in a normal way.</li> </ul>
④	<ul style="list-style-type: none"> <li>After ② and ②', only IRS positions will be left in the portfolio. It is combined with another IRS portfolio that has been hedged against risk in ③, and hedge transactions are executed (for correction) if necessary.</li> </ul>
⑤	<ul style="list-style-type: none"> <li>All IRS positions, including hedged positions, are settled in an auction for JPY-denominated IRS.</li> </ul>

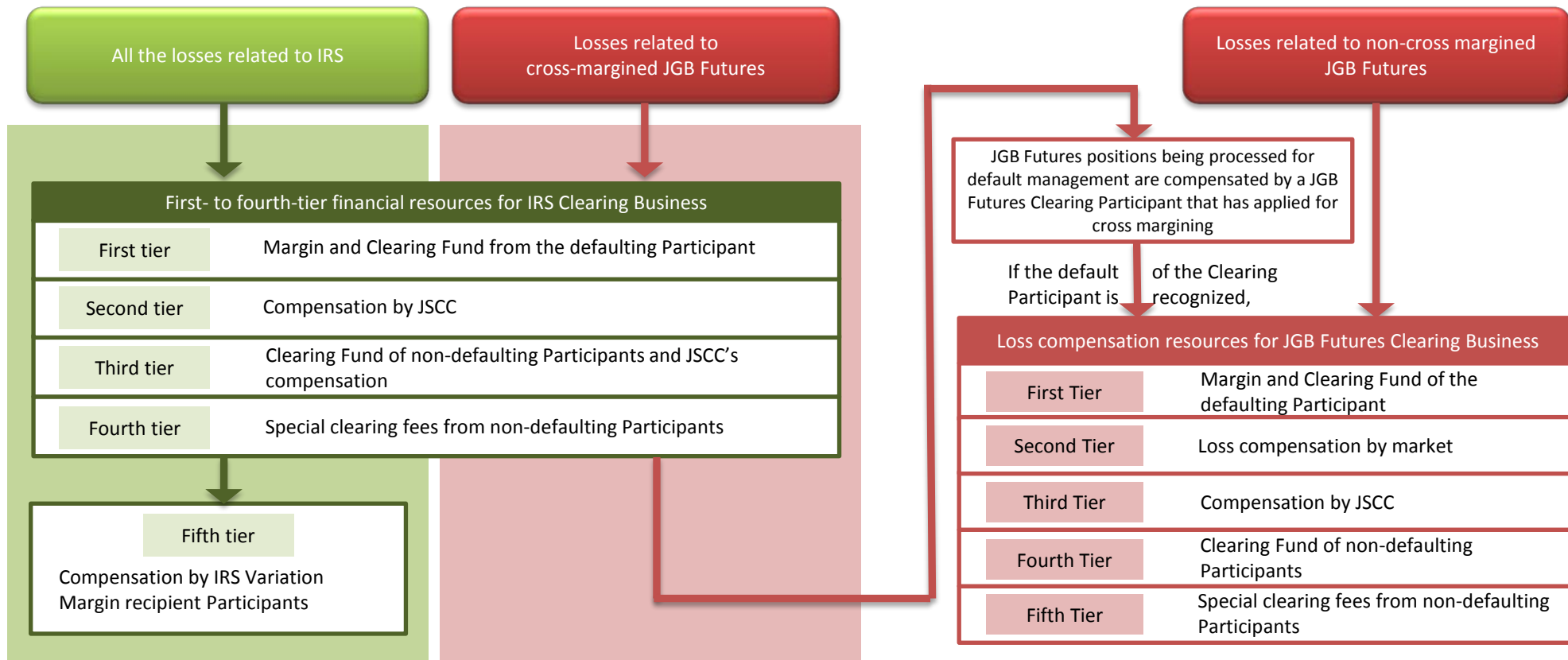
- If an IRS Clearing Participant or IRS Broker using Cross Margining defaults, losses related to the Cross Margining user's positions are compensated using the financial resources shown below.

[Cross-margined positions]

- IRS : Use the first- to fifth-tier financial resources allocated to IRS Clearing Business
- JGB Futures : Use the first- to fourth- tier financial resources allocated to JPY-denominated IRS Transactions. If the losses are not entirely covered by the resources, the JGB Futures positions relevant to default management will be compensated by a JGB Futures Clearing Participant that has applied for cross margining. If the default of the JGB Futures Clearing Participant is determined, the losses will be compensated using loss compensation financial resources allocated to JGB Futures Clearing Business.

[Non cross-margined positions]

- JGB Futures : Use loss compensation financial resources allocated to JGB Futures Clearing Business



- If an IRS Clearing Participant or IRS Broker using cross margining defaults, losses arising from the liquidation of IRS and cross-margined JGB Futures will be compensated using the first- to fourth-tier loss compensation financial resources for IRS Clearing Business, comprised of margins and Clearing Funds deposited for the cross-margined positions. If such losses exceed the first- to fourth-tier loss compensation financial resources for IRS Clearing Business, the excess will be allocated to each Clearing Business.
- In allocating such excess to Clearing Businesses, the losses in excess of the first- to fourth-tier resources allocated to JPY-denominated IRS Transactions should be prorated according to the amount of loss for each product.

[Ex. When losses can be covered by the first- to fourth-tier resources for IRS]

P/L on JPY-IRS: ▲ 50 P/L on cross margined JGB Futures: ▲ 50	P/L Total ▲ 100
First-to fourth-tier resources allocated to JPY-IRS: 100	

Compensate all the losses using the first- to fourth-tier resources allocated to JPY-IRS

[Ex. When losses cannot be covered by the first- to fourth-tier resources for IRS]

P/L on JPY-IRS: ▲ 150 P/L on cross margined JGB Futures: ▲ 50	P/L Total ▲ 200
First- to fourth-tier resources for IRS Clearing Business: 100	

Total loss exceeds the first- to fourth-tier financial resources allocated to JPY- IRS  
⇒ Uncovered loss is ▲ 100

Prorate the uncovered loss ▲ 100 according to the amount of loss for each product

- Ⓐ Loss from JPY-IRS: ▲ 75  
( = ▲ 100 × { ▲ 150 / ( ▲ 150 + ▲ 50) } )
- Ⓑ Loss from cross-margined JGB Futures: ▲ 25  
( = ▲ 100 × { ▲ 50 / ( ▲ 150 + ▲ 50) } )

IRS loss Ⓐ is covered with fifth-tier resources for IRS Clearing Business  
JGB Futures loss Ⓑ is covered with loss compensation resources for JGB Futures